# MASSACHUSETTS PORT AUTHORITY

Prepared by:

Massport's Administration & Finance Department

East Boston, Massachusetts

# COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED 6/30/2004

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To the Members of the Massachusetts Port Authority:

We are pleased to submit the Comprehensive Annual Financial Report ("CAFR") of the Massachusetts Port Authority (the "Authority") for the fiscal year ended June 30, 2004 ("fiscal year 2004"). This report was prepared by the Authority's Administration and Finance Department. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Authority. To the best of our knowledge and belief, this report fairly presents and discloses the Authority's financial position, results of operations, and cash flows as of and for the year ended June 30, 2004 in accordance with the requirements of accounting principles generally accepted in the United States of America ("GAAP"), except where use of accounting principles required under the Trust Agreement dated as of August 1, 1978, as amended (as so amended, the "1978 Trust Agreement"), between the Authority and U.S. Bank National Association, as trustee, is noted. Additional information intended to enable the reader to gain an understanding of the Authority's financial activities has been included within the CAFR.

The CAFR for fiscal year 2004 describes the Authority's financial performance during a year of recovery for the Authority and Boston-Logan International Airport ("Logan Airport" or the "Airport"), but uncertainty for the national airline industry. As a result, the Authority continued the fiscal restraint necessitated by the ongoing adjustments in the aviation industry that were originally made in the aftermath of the terrorist attacks of September 11, 2001 ("September $11^{th}$"). The events of September $11^{th}$ contributed to an already weakened economic picture for the aviation industry in general and the airlines in particular as well as adding unprecedented new security requirements and costs. To address the financial impacts from the September $11^{th}$ events, the Authority adopted and successfully implemented a comprehensive financial recovery plan in fiscal year 2002.

As shown in this CAFR, during fiscal year 2004, the Authority experienced growth, but not recovery to the peak levels of fiscal year 2001, in the number of passengers using and aviation operations at Logan Airport. However, the state of established, "legacy" air carriers continued to be uncertain, as United Air Lines, Inc. and Air Canada remained in bankruptcy, and in September 2004, US Airways, Inc. filed for bankruptcy protection for the second time since 2002. As a result, the Authority continued its efforts to diversify its revenues and to adhere to the principles of fiscal restraint established in its recovery plan. At the same time, the Authority continued its leadership role among U.S. airports and seaports in establishing new standards for transportation security. As evidence of this commitment, in September 2004, Logan Airport was the initial recipient of *Airport Security Report's* Exceptional Performance in Airport Security Award.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Massachusetts Port Authority for its comprehensive annual financial report for the fiscal year ended June 30, 2003. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The CAFR is presented in four sections. The Introductory Section, which is unaudited, contains this letter of transmittal, a narrative providing background with respect to the Authority and an organization chart of the Authority. The Financial Section consists of the Report of Independent Auditors and is followed by the required supplementary information, Management's Discussion and Analysis (MD&A) of the financial condition of the Authority, which is unaudited, ending with the Authority's audited Financial Statements for fiscal year 2004, with comparative information for fiscal year 2003, and the Notes to the Financial Statements. The Statistical Section, which is unaudited, includes selected financial and operational information, generally presented on a multi-year basis. The Statement of Annual Financial Information and Operating Data, which is unaudited, is prepared and submitted in accordance with the requirements of the Continuing Disclosure Agreement dated as of August 1, 1997 between the Authority and U.S. Bank National Association.

**THE AUTHORITY**

The Authority was created by and exists pursuant to Chapter 465 of the Massachusetts Acts of 1956 (as amended to date, the "Enabling Act") and is a body politic and corporate and a public instrumentality of The Commonwealth of Massachusetts (the "Commonwealth"). The Enabling Act and the 1978 Trust Agreement and the PFC Revenue Bond Trust Agreement, dated as of May 6, 1999, as amended (as so amended, the "PFC Trust Agreement") between the Authority and The Bank of New York, as trustee, govern the disposition of cash revenues to the various funds established under the 1978 Trust Agreement and the PFC Trust Agreement, and restrict the use of revenues credited to such funds.

The Enabling Act provides that the Authority shall consist of seven Members appointed by the Governor of the Commonwealth. Members are appointed for seven-year terms, with the term of one Member expiring on June 30 of each year. The Chairman of the Authority is appointed by the Governor of the Commonwealth. The management of the Authority and its operations are carried out by a staff headed by the Chief Executive Officer, who is appointed by and reports directly to the Members of the Authority. Under the Enabling Act, the Authority has general power, among other things, (i) to issue revenue bonds and to borrow money in anticipation thereof; (ii) to fix, revise, charge and collect tolls, rates, fees, rentals and charges for use of its projects; and (iii) to maintain, repair and operate and to extend, enlarge and improve its projects. The Authority has the power to acquire property by purchase or through the exercise of the right of eminent domain in certain circumstances. The Authority has no taxing power. The Authority has no stockholders or equity holders and the Authority's financial statements are not a component of the Commonwealth's financial statements.

The Authority's facilities include airport properties, consisting of Boston-Logan International Airport (the "Airport" or "Logan Airport") and Laurence G. Hanscom Field ("Hanscom Field"); the Maurice J. Tobin Memorial Bridge (the "Bridge"); and various port properties (the "Port"), located in Charlestown, South Boston, and East Boston. On January 15, 2000, the Authority also assumed operating responsibility for the Worcester Regional Airport pursuant to an operating agreement (the "Worcester OA") among the Authority, the City of Worcester, Massachusetts and the Worcester Airport Commission.

**Airport Properties**

**Logan Airport.** The Airport is the principal source of the Authority's operating revenues, operating income, and net assets. In fiscal year 2004, Logan Airport accounted for 80.8% of the Authority's operating revenues, calculated according to GAAP. In calendar year 2003, based upon total passenger volume, Logan Airport was the most active in New England, the 18$^{th}$ most active in the United States, and the 35$^{th}$ most active in the world, according to the Airports Council International ("ACI"). The Airport has been classified as a large traffic hub by the Federal Aviation Administration ("FAA"). Airports are

classified as large hubs if they enplane over 1% of the total passengers enplaned by domestic airlines in the United States. Enplaned plus deplaned passengers at the Airport for the fiscal year 2004 totaled approximately 24.5 million, excluding general aviation. This represents an 8.7 % increase from the 22.5 million passengers that used the Airport in fiscal year 2003 and a 10.9% increase from the 22.1 million passengers that used the Airport in fiscal year 2002. The Authority derives revenues, in part, from activity-based sources, such as parking, rental car commissions, and landing fees.

*Airline Passenger Services.* As of June 30, 2004, airline service at Logan Airport, both scheduled and non-scheduled, was provided by 56 airlines, including 6 U.S. major air carrier airlines, 16 non-U.S. flag carriers, and 12 regional and commuter airlines. In fiscal year 2004, the two carriers that carried the greatest market share of passengers at the Airport, Delta Air Lines (including Song and Delta Shuttle) and American Airlines, carried approximately 35.5% of the total passengers using the Airport. The six carriers with the highest market shares – Delta Air Lines, American Airlines, US Airways (including US Airways Shuttle), United Air Lines, Northwest Airlines and Continental Airlines – carried approximately 67.5% of all passengers traveling through the Airport during fiscal year 2004. The largest market share for fiscal year 2004 was held by Delta, with approximately 18.0% of all passengers traveling through the Airport, followed by American Airlines, with 17.5%. In January 2004, following an energetic marketing campaign by representatives of the Authority and the Commonwealth, including Governor Romney and the Authority's CEO, Craig Coy, JetBlue Airways commenced service from Logan Airport. By the end of the six month period from January through June 2004, Jet Blue was the sixth largest carrier at the Airport in terms of passenger share during that period. On August 11, 2002, US Airways Group filed for reorganization under Chapter 11 of the United States Bankruptcy Code and on March 31, 2003, they emerged from bankruptcy protection. Upon emergence from bankruptcy protection, US Airways and its affiliates assumed all leases and executory contracts with the Authority relating to their operations at Logan Airport. However, on September 9, 2004, US Airways again filed for bankruptcy protection under Chapter 11. On October 26, 2004, ATA filed for bankruptcy protection under Chapter 11. On December 9, 2002, UAL Corp., parent of United Air Lines, filed for bankruptcy protection under federal law. UAL Corp. has not yet emerged from such protection. United has not rejected its executory agreements at Logan Airport, and has continued to operate at the Airport and make its rental payments with respect to rent due after the date it filed for bankruptcy protection. Air Canada emerged from bankruptcy on September 30, 2004 and has ratified all executory agreements with the Authority relating to its operations at Logan Airport. At this time, the Authority does not expect that these air carrier bankruptcies will materially affect the results of the operation or financial condition of the Authority.

*Cargo Airline Services.* Logan Airport also plays an important role as a center for processing domestic and international air cargo. According to ACI, in calendar year 2003 the Airport ranked 19th in the nation in total air cargo volume. As of June 30, 2004, Logan Airport was served by seven all-cargo and small package/express carriers. During fiscal year 2004, the companies with the largest shares of enplaned and deplaned cargo at the Airport, based upon cargo tonnage, were Federal Express, United Parcel Service, American Airlines, Delta Air Lines, ABX Air, Inc. (d/b/a Airborne Express) and British Airways. In fiscal year 2004, total combined cargo and mail volume was 809.2 million pounds. The total volume of air cargo and mail handled at the Airport decreased in fiscal year 2004 by 1.1% compared to fiscal year 2003 and by 3.9% compared to fiscal year 2002.

**Hanscom Field.** Hanscom Field is located principally in the town of Bedford, Massachusetts, approximately 15 miles northwest of Boston. The Authority anticipates that Hanscom Field will continue as a general aviation reliever to Logan Airport, as well as continue to develop as a niche commercial service market for regional aircraft. General aviation operations, including business related activity, charters, and light cargo, as well as flight training and recreational flying, currently represent the vast majority of activity at Hanscom Field.

**Worcester Regional Airport.** On January 12, 2000, the Authority entered into the Worcester OA for five years with the City of Worcester, Massachusetts and the Worcester Airport Commission, and in 2004, the Worcester OA was amended to extend the term through fiscal year 2007. Pursuant to the Worcester OA, the Authority operates Worcester Regional Airport. Under the Worcester OA, the Authority pays a percentage of the net operating deficits (if any) for Worcester Regional Airport. For fiscal years 2004 and 2003, the Authority paid 100% of such deficit, plus certain of the Authority's direct expenses associated with operation of Worcester Regional Airport, totaling approximately $2.2 million and $1.9 million, respectively. In subsequent years, the percentage of the operating deficit for which the Authority will be responsible will decline from 100% in fiscal year 2005 to 85% in fiscal year 2006, and further to 68% in fiscal year 2007. These budgeted losses have been accrued in the accompanying financial statements. It is anticipated under the Worcester OA that the Authority could assume title to Worcester Regional Airport. However, legislative action would be required in order for the Authority to take title to Worcester Regional Airport.

**Tobin Memorial Bridge**

The Tobin Memorial Bridge, which is a part of U.S. Route 1, extends across the Mystic River from the Charlestown section of Boston to the City of Chelsea, and connects Boston's Central Artery and the Northeast Expressway. The Bridge carries an average of 30,000 in-bound vehicles per day. The Authority collects tolls from in-bound users of the Bridge. The toll for passenger cars was increased to $3.00 on April 4, 2004. The total number of vehicles using the Bridge in fiscal year 2004 decreased by approximately 2.7% to approximately 11.0 million from the 11.3 million in fiscal year 2003 and by 5.2% from approximately 11.6 million in fiscal year 2002, while Bridge revenues increased by approximately 7.6% and 37.9%, respectively, to $24.1 million for fiscal year 2004 from $22.3 million in fiscal year 2003 and $17.4 million in fiscal year 2002, primarily due to the toll increases that went into effect on January 1, 2002 and April 4, 2004.

**Port Properties**

The Authority owns, develops, operates, and maintains Port Properties comprising certain waterfront properties transferred to it from the Commonwealth in 1959, as well as additional properties subsequently acquired. Historically, the Authority has administered these Port Properties through two divisions: the Maritime Department and the Business Development Department. As part of a reorganization of the Authority which is described below, responsibility for the properties formerly within the purview of the Business Development Department has been transferred to the Maritime Department. These properties include maritime/industrial properties, such as the Boston Fish Pier, as well as development properties on former port backlands, such as the Seaport Hotel and the new Manulife building. The new Economic Planning and Development Department provides planning and permitting services to the entire Authority.

The Authority, through its Maritime Department, owns, manages, develops, operates, and markets the public cargo and passenger terminals of the Port. Boston is New England's major port and the only port in the region providing a full range of container handling, cruise ship, bulk, breakbulk, automobile processing, petroleum, and ship repair services. The Authority's maritime business activities include cargo handling (including containers, bulk materials, and automobiles), serving as both a point of embarkation and port of call destination for cruise ships, and leasing property. All container operations are consolidated at Conley Terminal in South Boston, and an automobile preparation, processing, and distribution facility is located at Moran Terminal in Charlestown. The total number of cruise passengers decreased in fiscal year 2004 by 3.1% and 18.5% compared to fiscal years 2003 and 2002, respectively. Port activity for containers increased 8.7% and 29.1% over fiscal years 2003 and 2002, respectively, primarily as a result of new far-east service provided by CKYH partners (COSCO, K-Line, Yang Ming and Hanjin) while automobiles decreased by 58.7% and 84.8% (reflecting the relocation of Volkswagen's

importing business from Moran Terminal to Rhode Island) from fiscal years 2003 and 2002, respectively, and bulk tonnage decreased by 11.4% and 30.5%, respectively, from fiscal years 2003 and 2002.

The Economic Planning and Development Department is assisting the Maritime Department in the planning, and development of former maritime real estate for maritime, industrial, and commercial uses. Such properties are then managed by the Maritime Department. The Authority believes that in the long term this diversified land use strategy will provide a non-maritime revenue stream to help finance the continuing capital development of the Port's cargo and passenger terminals, reducing the burden on the Authority's other revenue sources.

## LOCAL ECONOMY

The Boston area economy is an important factor in the Authority's operations, although the regional and national economies also play an important role, as passengers and cargo from across the United States and around the world travel to and from Boston via Logan Airport and the Port of Boston. The Commonwealth is home to a number of well-known and respected medical and educational institutions, providing relative stability to its economy. Tourism is also a significant component of the Commonwealth's economy.

The nation and state emerged from recession in 2003, but experienced continued weakness in the labor market in fiscal year 2004. According to the Bureau of Labor Statistics, the Commonwealth's seasonally adjusted unemployment rate of 5.3% as of June 30, 2004, was below the national seasonally adjusted unemployment rate of 5.6% as of June 30, 2004, and was lower than the Commonwealth's seasonally adjusted unemployment rate of the prior year, which was 5.8% as of June 30, 2003.

As of June 30, 2004, local economic indices were showing a likelihood of economic growth in the near future albeit at a slower rate than that of the nation. The Leading Economic Index for Massachusetts published as a joint effort by the University of Massachusetts and the Federal Reserve Bank of Boston was positive for six consecutive months through June 2004.

## MAJOR INITIATIVES

### Revenue Recovery

During fiscal year 2004, the Authority focused its attention on increasing revenues, especially non-aeronautical or non-airline revenues. The $421.5 million in revenues (calculated according to the 1978 Trust Agreement, including operating grants) realized in fiscal year 2004 were 12.8% greater than the revenues realized in fiscal year 2003. Revenues from landing fees grew in fiscal year 2004 by $6.1 million, or 8.8%, over fiscal year 2003. The landing fee revenue growth reflected an increase in landed weights, particularly driven by the growth in low fare carrier traffic in January – June, that offset a decrease in the landing fee from $3.76 per thousand pounds of certificated aircraft weight in fiscal year 2003 to $3.58 in fiscal year 2004. Terminal rents grew by $19.1 million to $66.2 million in fiscal year 2004, which was 40.5% greater than fiscal year 2003, as the capital costs of the International Gateway and the operating costs of increased security drove up terminal rental rates. Although several air carriers operating at Logan Airport have filed for bankruptcy protection, the financial impact on the Authority of such bankruptcies has been minimal, as the majority of such air carriers continue to operate at the Airport while in bankruptcy and due to the Authority's good business practices, which include minimizing outstanding receivables and obtaining security deposits or other collateral. Parking fee revenue grew by $12.8 million to $88.2 million in fiscal year 2004, a growth rate of 17.0%. The increase in parking revenues was driven by both a surge in the number of cars parking in Logan Airport's garages, and an increase in the average ticket price per car. Revenues generated by port properties (combined revenues

from the Maritime Department and the Business Development Department) grew to $49.8 million in fiscal year 2004, an increase of $6.7 million or 15.6% over fiscal year 2003. The seaport revenue growth reflected an 8.7% increase in container volume that was largely driven by the additional far-east traffic provided by COSCO and a $2.9 million or 36.5% growth in Business Development revenues, primarily due to increases in rent collections. The Bridge's 7.7% revenue growth to $24.1 million reflected the April 2004 rate increase.

The Authority's expense budget for fiscal year 2004, calculated in accordance with the 1978 Trust Agreement, set a spending limit of $244.6 million, 8.7% higher than the budget for fiscal year 2003 and slightly lower than the original fiscal year 2002 operating budget. The fiscal year 2004 budget provided over $6.8 million in new funds for security and funded a significant organizational realignment, described below, without increasing the number of approved positions, which remained 15% below the pre-September 11th level. Actual operating results for fiscal year 2004 compared favorably with the budget: operating expenses, again calculated in accordance with the 1978 Trust Agreement (see Note B to the Financial Statements), were $243.9 million, which was within plan.

On a cash basis, the Authority's emphasis on revenue growth worked well. Cash collections during fiscal year 2004 were sufficient to cover all debt service deposits, make deposits to the Maintenance Reserve Fund and the Payment in Lieu of Taxes Fund and make a positive contribution to the Improvement and Extension Fund, totaling $62.8 million for the year. The deposit to the Improvement and Extension Fund in fiscal year 2004 was $34.2 million greater than the budgeted amount, as a result of both greater revenues received and lesser expenses incurred. Cash collections (excluding PFCs) during fiscal year 2004 of $414.8 were 15.8% greater than the cash collected during the same period of fiscal year 2003.

All of the Authority's general revenue bonds and PFC bonds are secured by debt service reserve funds that are fully funded with cash. At June 30, 2004, the debt service reserve funds for the bonds secured by the 1978 Trust Agreement held $93.4 million to support the approximately $80.7 million in annual debt service on the Authority's general revenue bonds (net of swap proceeds and capitalized interest); in fiscal year 2004 the Authority generated sufficient net revenues to achieve 2.20 coverage on these bonds. Similarly, at June 30, 2004, there was $25.6 million in the debt service reserve fund securing the PFC bonds to support the roughly $21.5 million in annual debt service on the PFC bonds; PFC debt coverage in fiscal year 2004 was 1.62.

The rating agencies have recognized the value of the Authority's fiscal restraint, revenue diversity and underlying market strengths. As of June 30, 2004, the Authority's revenue bonds were rated Aa3 with a negative outlook, AA- with a stable outlook, and A+ with a stable outlook by Moody's, Fitch and Standard and Poor's, respectively. In August 2004, Moody's upgraded the Authority's bonds to Aa3 with a stable outlook.

**Organizational Realignment**

During fiscal year 2003, under the direction of the CEO, Craig P. Coy, staff planned and implemented a comprehensive organizational realignment designed to achieve greater operating effectiveness and enhanced focus on financial performance throughout the Authority. While far-reaching, this realignment was achieved within existing authorized positions at the post-fiscal recovery level (reduced by 15% post September 11th).

The Authority now has three operating departments – Aviation, Maritime and Bridge – each with clear profit/loss responsibility. Thus, the staff overseeing the operation of the Authority's facilities are charged with balancing financial performance with operational demands and customer service as well as forecasting the implications of any proposed capital programs or operating initiatives, and for the

collection of accounts receivable. The property management component and associated revenue of the Business Development Department was transferred to the Maritime Department, although a staff unit of the newly established Economic Planning and Development Department aids all of the Authority's Departments in land use planning and real estate development

Furthermore in fiscal year 2004, all of the Authority's internal reporting metrics were refined to support the highlighted accountability of the operating departments. Additionally, the operating departments must now approve the support departments' budget requests. This requirement has led to improvements in efficiency and internal customer service. For example, the Legal Department measures and contrasts the cost of assigning staff attorneys to legal matters versus hiring outside counsel. The Administration and Finance Department has sped up the monthly closing, has transferred the Airport's stock room to Aviation for increased operational efficiency, is training and overseeing all of the operating departments in the collection of accounts receivable, and has restructured the Authority's banking services to increase automation and to reduce expenses.

**Capital Program**

The Authority's fiscal year 2004-2008 Capital Program (the "FY04-FY08 Capital Program") was approved by the Members of the Authority in February 2004 and includes total expenditures of $1.91 billion for ongoing projects and projects to be commenced during the five-year program period, including $771 million in projects that will only be executed if they are funded through third-party or non-recourse funding sources.

The FY04 – FY08 Capital Program represents a comprehensive and coordinated capital improvement and financial master plan for all Authority facilities. The program was developed to be consistent with the Authority's goals of funding security initiatives and airfield operational enhancements, maximizing FAA and Transportation Security Administration ("TSA") grant receipts, securing and utilizing a $4.50 passenger facility charge ("PFC"), and avoiding increasing Airport rates and charges to levels that could lead to significant service reductions.

The FY04-FY08 Capital Program allocates $1.14 billion of Authority funds to key Authority priorities. These include security enhancements to the Airport's perimeter; the completion of the International Gateway and the Terminal Area Roadways, the last remaining Logan Modernization projects; the construction of infrastructure to support the Terminal A redevelopment being undertaken by Delta Air Lines; major airfield maintenance and enhancements; and the renovation of the Central Garage, including the rebuilding of the garage's two lower levels and the addition of three new levels. The FY04-FY08 Capital Program also includes the acquisition of roadway segments from the Central Artery/Tunnel ("CA/T") Project, significant capital improvements to maintain and enhance Logan Airport's airfield, residential soundproofing in the communities neighboring Logan Airport, enhancements to the Maritime Properties and the Bridge, and the maintenance and renewal of the Authority's other existing facilities.

The Authority expects to update the Capital Program for fiscal years 2005-2009 during the winter of 2005.

**Financial Planning**

During fiscal year 2004, the FAA approved a letter of intent of $90.8 million to support the construction of Runway 14/32 and the associated taxiways. Also during fiscal year 2004, the Authority received $58 million from the TSA, representing payments for federal fiscal years 2003 and 2004 under the letter of intent issued by the TSA to fund up to 75% of the cost of the terminal improvements required to support the TSA's in-line screening of hold baggage.

If significant changes occur in the amounts available from expected funding sources, or if the costs of certain projects increase significantly, the Authority will reduce the scope of proposed projects, the overall capital program or both. For example, in October 2001, as part of its financial recovery plan, the Authority made significant reductions to the capital program then in effect. Then in June 2002, the Authority again adjusted its capital program in order to dedicate $146 million to the terminal retrofits required to support the TSA's in-line hold baggage screening.

Many of the commitments within the Authority's capital plan, such as the International Gateway project that is doubling the size of Terminal E and the double-decking of the Airport's Roadways, have already been authorized by the Authority and extend over several years. Nevertheless, each project within its capital program is a separate "module" which the Authority approves individually along with a separate project budget. This permits the Authority to undertake the construction and financing of each of these additional projects independently of other capital projects. The Authority believes that the modular design of the capital program significantly increases its ability to make adjustments in capital spending when necessary.

**Security**

The Authority's security strategies, policies, and programs exceed the security measures required by the federal government. Reflecting the Authority's recognized success in achieving heightened security levels, in September 2004, Logan Airport was the initial recipient of *Airport Security Report's* Exceptional Performance in Airport Security Award. The Authority continues to take a leadership role in the development of transportation security solutions.

- In the three years since September 11$^{th}$, the Members of the Authority have budgeted $224.9 million for security infrastructure. The TSA, the Authority's partner in its security effort, has spent an additional $50 million at Logan Airport on equipment for passenger and baggage screening.
- The Authority has invested heavily in anti-terrorist training with a first-in-the-nation Anti-terrorism Unit comprised of specially trained and equipped officers as well as an on-site bomb and weapons of mass destruction response team.
- The Authority has gained national attention for its Behavior Pattern Recognition methods which are part of a formal, ongoing training program for its airport employees.
- Logan Airport is the first major U.S. airport to implement a 100% in-line hold baggage screening system as well as the first in the nation to test the screening of air cargo destined for commercial aircraft.
- The Authority's State Police troopers on foot patrol are using handheld wireless computers enabling them to conduct criminal history and license plate checks via a secure wireless network.
- Hanscom Field in Bedford is the only airport of its size to implement a security badge program requiring FBI fingerprint background checks to access the airfield.
- To enhance protection of the Authority's maritime assets, the Authority is installing surveillance and intrusion detection cameras and perimeter fencing at its maritime facilities.
- The Authority is working with U.S. Customs to screen one of the highest percentages of cargo containers in the U.S. ports.
- On the Tobin Bridge, the Authority is implementing an enhanced security program, including additional detection systems and increased police patrols and inspections.
- The Massport Security Center of Excellence has pioneered the introduction of numerous new security technologies and has been recognized by the Transportation Security Agency as a test bed for new technology development.

- In response to the Maritime Transportation Security Act ("MTSA"), the Authority prepared and submitted to the United States Coast Guard a comprehensive security assessment and plan for the Authority's maritime facilities.

## FINANCIAL INFORMATION

The financial information included in the Financial Section of this report presents the financial position of the Authority as of and for the fiscal year ended June 30, 2004. The concept of financial position focuses on existing resources and claims upon those resources.

### Accounting System and Budgetary Control

The Authority follows accounting principles generally accepted in the United States of America applicable to governmental enterprise funds. Accordingly, the Authority's financial statements are prepared on an accrual basis of accounting.

To provide the Authority with reasonable assurance that its financial resources are safeguarded against waste, loss, and misuse, and that reliable accounting and financial data are timely, complete, relevant, accurate, and fairly disclosed in reports, the Authority has established a system of internal controls. These internal controls provide the Authority with financial and accounting records from which financial statements are prepared. The Authority's Internal Audit function maintains oversight over the key areas of the Authority's business and financial processes and controls, and reports directly to the Audit and Finance Committee of the Authority's Board.

Management has established and maintains a system of internal controls to ensure that material financial information required to be disclosed by the Authority in its CAFR is recorded, processed, summarized and reported to management in a timely manner. Management has reviewed the Authority's current controls and procedures within the past ninety days and believes that such controls and procedures provide reasonable assurance as to the integrity and accuracy of the financial statements, in all material respects. The concept of reasonable assurance is based on the recognition that the cost of controls should not exceed the relative benefit of such controls, and requires estimates and judgment by management.

An annual budget is prepared on the basis established by the 1978 Trust Agreement. The operating and capital budgets are prepared and reviewed on a non-GAAP basis. Budgetary control and evaluation are effected by comparing actual interim and annual results with the budget. The Authority compares budget and non-GAAP actual financial statements on a monthly basis and prepares unaudited GAAP financial statements on a quarterly basis.

### Single Audit

As the recipient of federal financial assistance, the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs. This internal control is subject to periodic evaluation by management and the internal audit staff of the Authority. The Authority's single audit for the fiscal year ended June 30, 2004 is in process. The Authority's single audit for the fiscal year ended June 30, 2003 noted no matters involving the internal control over the Authority's financial reporting and its operation that were considered to be material weaknesses.

**Passenger Facility Charge**

In 1993, the Authority's application to levy a passenger facility charge ("PFC") of $3.00 was approved by the FAA. The charge has been imposed on tickets sold on and after November 1, 1993. In February 1998, the FAA authorized the Authority to increase its collections to $927.4 million. The FAA has approved use of PFCs by the Authority to finance the Authority's Residential Sound Insulation Program, the Terminal E Modernization project, the Circulating Roadways project, the Elevated Pedestrian Walkways project, and the International Gateway project. Upon the issuance of the Authority's PFC Revenue Bonds, Series 1999A and 1999B (the "PFC Bonds") in May 1999, the Authority's PFCs were pledged pursuant to the PFC Trust Agreement to support the PFC Bonds and to fund construction of eligible portions of the projects described above. In the event that PFC Bond proceeds, PFCs and other funding sources are inadequate to meet anticipated project costs, projects may be deferred, altered, or canceled.

Historically, PFC revenues, exclusive of interest earnings, grew from $31.2 million in fiscal year 1995 to a peak of $36.8 million in fiscal year 2000. PFC revenues then dropped for three years in a row, to a low of $29.1 million in fiscal year 2003. In fiscal year 2004, PFC revenues, exclusive of interest earnings, rose for the first time since 2000, increasing by 12.9% over fiscal year 2003's level, to $32.8 million. Please refer to the PFC Revenue line of the nonoperating revenues set forth in Table S-1 in the Statistical Section for an historical statement of PFC revenues. From November 1993 through June 30, 2004 the Authority has had cash collections of PFCs including interest earned thereon of $369.5 million, and the Authority is authorized to collect $927.4 million of PFCs in total. During fiscal year 2005, the Authority expects to file an application with the FAA to collect and use a $4.50 PFC.

**Cash and Investment Management**

Commencing July 1, 2004, the Authority implemented a new cash management system. Two banks were selected after a competitive process to provide, respectively, cash collections, and concentration and disbursement, services.

All investments of Authority funds are made in accordance with the investment policy adopted in 2000 by the Members of the Authority, and the Policies and Procedures adopted by the Investment Oversight Committee in August 2003. On October 21, 2004, the Members of the Authority adopted a policy regarding the non-speculative use and terms of financial hedges, such as interest rate swaps, forwards, caps and collars. The Authority is authorized by the 1978 Trust Agreement and the PFC Trust Agreement to invest in obligations of the U.S. Treasury, U.S. Government agencies and instrumentalities, in bonds or notes of public agencies or municipalities, in the Massachusetts Municipal Depository Trust (MMDT), in bank time deposits, and in repurchase agreements. All investments are held on behalf of the Authority by the Authority's trustees or a custodian, but managed by the Authority.

The certificates of deposit and the repurchase agreements are collateralized by obligations of the U.S. Government or agencies of the U.S. Government. The 1978 Trust Agreement and the PFC Trust Agreement require that securities underlying repurchase agreements at the time of purchase have a fair value at least equal to the cost of the agreement plus accrued interest.

Certain funds that will be used for bond reserve requirements and debt service are invested in long-term instruments. An annual cash flow projection is developed for all capital projects and bond funds. Investment maturities are scheduled to comply with the goals of the Authority's investment policy, which are, in descending order of priority, (1) to preserve capital, (2) to provide liquidity to meet payment obligations, and (3) to generate interest income.

**Pension and Retirement Fund Operations**

Chapter 487 of the Massachusetts Acts of 1978 ("C. 487") provided for the establishment of the Massachusetts Port Authority Employees' Retirement System (the "Plan"), a contributory retirement system that is separate from the Massachusetts State Employees' Retirement System. Prior to 1978, Authority employees were members of the state employees' system, and the funding of the pension liability was on a "pay-as-you-go" method. Pursuant to C. 487, the Authority employees' rights and benefits under the state plan were transferred to the Plan, and the Authority established a separate pension fund. The Plan is a single employer plan which provides retirement benefits for substantially all employees of the Authority and incidental benefits for their surviving spouses, beneficiaries, and contingent annuitants. The Plan is a contributory defined benefit plan to which the Authority and its employees contribute such amounts as are necessary, on an actuarial basis, to provide assets sufficient to meet benefits to be paid to Plan participants. Total contributions from the Authority and employees to the Plan were $1,842,153 and $5,892,444, respectively, for the Plan Year ended December 31, 2003.

**Risk Management**

Under the 1978 Trust Agreement, the Authority is required to maintain a risk management and insurance program that is substantially in compliance with the recommendations of a Risk Management Consultant. The Authority maintains a risk management program consisting of procedures for risk transfer where practical and purchasing of property and casualty insurance, including business interruption coverage, where the cost is reasonable. The Authority also self-insures certain risks, such as workers' compensation, for both the Authority's employees and employees involved in the Authority's Owner Controlled Insurance Program. Both of these self-insured programs are administered with the assistance of a third-party administrator. The funding for deductibles and self-insured retentions is maintained in a dedicated self-insurance account. See Table S-4 for a summary of the Authority's coverages and insurance providers.

**Contingent Liabilities**

As of October 1, 2004, the Authority is aware of approximately 59 lawsuits pending against the Authority and other entities relating to the September 11th terrorist attacks. The statute of limitations for such lawsuits expired on September 11, 2004. The Aviation and Transportation Security Act, passed in November 2001, limits the liability of various entities, including airport sponsors such as the Authority, for the events of September 11th at the limit of each entity's liability insurance coverage. The Authority has liability insurance in effect to cover the incidents of September 11th in the amount of $500,000,000 per occurrence. Furthermore, to the Authority's knowledge, its insurer has agreed to defend any such claims and has not reserved its rights to deny coverage with respect to any of those claims. Please refer to Footnote L to the financial statements for a description of material pending litigation.

## OTHER INFORMATION

**Independent Audit**

Pursuant to the 1978 Trust Agreement, an audit of the Authority's financial statements for fiscal year 2004 has been completed by the Authority's independent auditors, PricewaterhouseCoopers LLP. Their report is included herein.

**Additional Information**

For additional information concerning the Authority, please see the Authority's award winning website, www.massport.com. Financial information can be found in the Investor Relations section of the website by clicking on "About Massport", and then clicking on "Who We Are". The Authority's Annual PFC Statement of Financial Information and Operating Data for fiscal year 2004 (the "PFC Annual Update") will be filed with each Nationally Recognized Municipal Securities Information Repository ("NRMSIR") designated by the Security and Exchange Commission ("SEC") in satisfaction of the Authority's obligations under SEC Rule 15c2-12 with respect to certain bonds issued pursuant to the PFC Trust Agreement. Copies of the PFC Annual Update are also available from the Authority. Copies of the Annual Statements prepared pursuant to Rule 15c2-12 with respect to the Authority's bonds issued under both the 1978 Trust Agreement and the PFC Trust Agreement for prior years are available from the NRMSIRs and from the Authority. The Authority's executive offices are located at One Harborside Drive, Suite 200S, East Boston, Massachusetts 02128, and the main telephone number is (617) 426-2800. Questions may be directed to Leslie A. Kirwan, the Authority's Director of Administration and Finance and Secretary-Treasurer.

**Acknowledgments**

The completion of this report could not have been accomplished without the efficient and dedicated services of the entire Administration and Finance Department, the Communications Department, and the Legal Department. We would like to express our appreciation to all members of these departments who assisted and contributed to its preparation.

Very truly yours,

Craig P. Coy
Chief Executive Officer

Leslie A. Kirwan
Director of Administration and Finance
Secretary-Treasurer

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Massachusetts Port Authority

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2003

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

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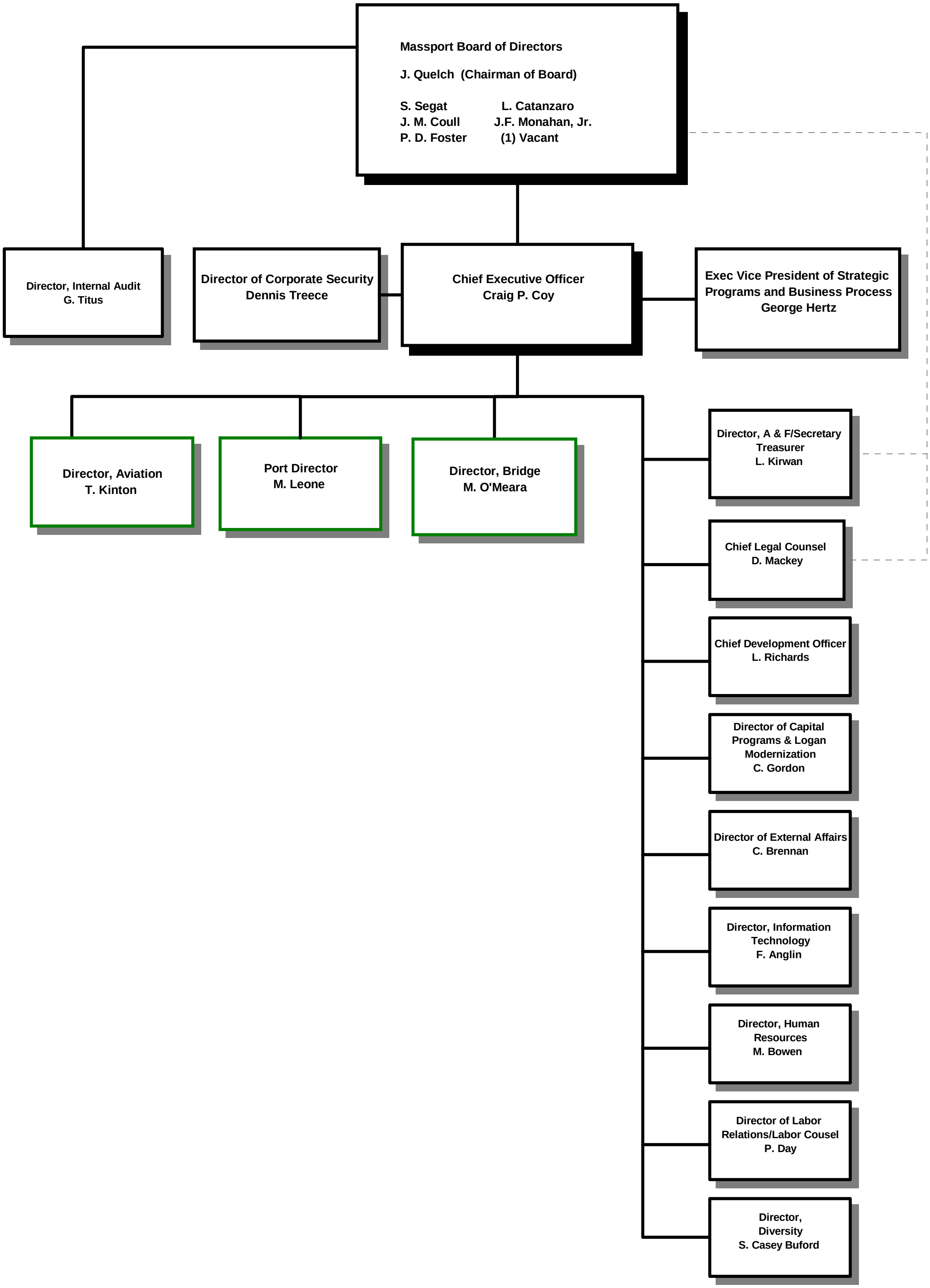
Massport Board of Directors
J. Quelch (Chairman of Board)
S. Segat
L. Catanzaro
J. M. Coull
J.F. Monahan, Jr.
P. D. Foster
(1) Vacant
Director, Internal Audit G. Titus
Director of Corporate Security Dennis Treece
Chief Executive Officer Craig P. Coy
Exec Vice President of Strategic Programs and Business Process George Hertz
Director, Aviation T. Kinton
Port Director M. Leone
Director, Bridge M. O'Meara
Director, A & F/Secretary Treasurer L. Kirwan
Chief Legal Counsel D. Mackey
Chief Development Officer L. Richards
Director of Capital Programs & Logan Modernization C. Gordon
Director of External Affairs C. Brennan
Director, Information Technology F. Anglin
Director, Human Resources M. Bowen
Director of Labor Relations/Labor Cousel P. Day
Director, Diversity S. Casey Buford

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## Authority Board Members

The Authority consists of seven members appointed by
the Governor of Massachusetts to staggered terms of seven years each.
Members serve without compensation.

**John A. Quelch** Chairman
**James M. Coull** Vice Chairman
**Lois J. Catanzaro**
**Paul D. Foster**
**John F. Monahan, Jr.**
**Susana M. Segat**
[Vacant]

## Executive Staff

**Craig P. Coy** Chief Executive Officer
**George K. Hertz** Executive Vice President
**Leslie A. Kirwan** Director of Administration and Finance/Secretary-Treasurer

**Francis X. Anglin** Director of Information Services and Telecommunications
**Marie H. Bowen** Director of Human Resources
**Carole Brennan** Director of Communications/Public Affairs
**Sandra Casey Buford** Director of Diversity
**Patricia A. Day** Director of Labor Relations/Labor Counsel
**Christopher M. Gordon** Director/Capital Programs/Logan Modernization
**Thomas J. Kinton, Jr.** Director of Aviation
**Michael A. Leone** Port Director
**David S. Mackey** Chief Legal Counsel
**Mary Jane O'Meara** Bridge Director
**Lowell L. Richards, III** Chief Development Officer
**Gail S. Titus** Director of Internal Audit
**Dennis P. Treece** Director of Corporate Security

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# Massachusetts Port Authority

**Financial Statements with**
**Management's Discussion and Analysis**
**June 30, 2004 and 2003**

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PRICEWATERHOUSECOOPERS

**PricewaterhouseCoopers LLP**
One International Place
Boston MA 02110
Telephone (617) 530 5000
Facsimile (617) 530 5001

## Report of Independent Auditors

To the Members of the Massachusetts Port Authority:

In our opinion, the accompanying balance sheets and the related statements of revenues, expenses and changes in net assets, and cash flows present fairly, in all material respects, the financial position of the Massachusetts Port Authority (the "Authority") (a public instrumentality of The Commonwealth of Massachusetts) at June 30, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Authority's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Management's Discussion and Analysis on pages 23 through 38 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information presented on pages 77 to 80 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

September 30, 2004

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## MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

### *Introduction*

The following discussion and analysis of the financial performance and activity of the Massachusetts Port Authority (the " Authority") is intended to provide an introduction to and an overview and analysis of the basic financial statements of the Authority for the year ended June 30, 2004 ("fiscal year 2004" or "FY04") with selected comparative information for the year ended June 30, 2003 ("fiscal year 2003" or "FY03") and for the year ended June 30, 2002 ("fiscal year 2002" or "FY02"). The management of the Authority has prepared this discussion, and it should be read in conjunction with the financial statements and the notes thereto, which follow this section. Management has established and maintains controls and procedures designed to ensure that material information required to be disclosed by the Authority in its annual financial statements is recorded, processed, summarized and reported to management in a timely manner. Management has reviewed the Authority's current controls and procedures within the past ninety days and believes that such controls and procedures are adequate in order to record, process, summarize and report to management in a timely manner material information required to be disclosed by the Authority in its annual financial statements.

The Authority was created by and exists pursuant to Chapter 465 of the Massachusetts Acts of 1956 (as amended to date, the "Enabling Act"), and is a body politic and corporate and a public instrumentality of The Commonwealth of Massachusetts (the "Commonwealth"). The Enabling Act and the Trust Agreement dated as of August 1, 1978, as amended (as so amended, the "1978 Trust Agreement") between the Authority and U.S. Bank National Association, as trustee, and the PFC Revenue Bond Trust Agreement, dated as of May 6, 1999, as amended (as so amended, the "PFC Trust Agreement") between the Authority and The Bank of New York, as trustee, govern the disposition of cash revenues to the various funds established under the 1978 Trust Agreement and the PFC Trust Agreement, and restrict the use of revenues credited to such funds. The Enabling Act provides that the Authority shall consist of seven Members appointed by the Governor of the Commonwealth. The Authority's financial statements are not a component of the Commonwealth's financial statements.

The Authority's facilities include airport properties, consisting of Boston-Logan International Airport (the "Airport" or "Logan Airport") and Laurence G. Hanscom Field ("Hanscom Field"); the Maurice J. Tobin Memorial Bridge (the "Bridge"); and various port properties (the "Port") located in Charlestown, South Boston, and East Boston. The Authority also operates the Worcester Regional Airport pursuant to an operating agreement (the "Worcester OA") among the Authority and the City of Worcester, Massachusetts and the Worcester Airport Commission.

Logan Airport is the most active airport in New England and provides both international and domestic commercial service. It is the primary source of the Authority's revenues and net revenues. Hanscom Field is the region's premier general aviation airport and provides niche commercial service. Worcester Regional Airport serves the air transport needs of Massachusetts's second largest city. The Port of Boston is New England's major port and provides a full range of services, from cruise ship to container ship handling. The Bridge is one of Greater Boston's primary cross-harbor roadway connections and is a part of U.S. Route 1. In addition to operating its facilities, the Authority is committed to providing the modern transportation infrastructure necessary to support the needs of Boston, Massachusetts and New England.

The Authority is self-supporting and uses revenues from landing fees, parking fees, fees from terminal and other rentals, revenues from concessions, Bridge tolls, ground rents, and other fees and charges to fund operating expenses. The Authority has no taxing power and is not taxpayer funded. The Authority's capital program is funded by bonds and notes issued by the Authority, federal grants, and Authority revenues, including Passenger Facility Charges ("PFCs"). The Authority's bonds are secured solely by the Authority's revenues.

**The Financial Statements**

The Authority's financial report includes three financial statements: the Balance Sheets; the Statements of Revenues, Expenses and Changes in Net Assets; and the Statements of Cash Flows. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board ("GASB").

The Balance Sheets demonstrate that the Authority's assets equal liabilities plus net assets. The net assets are displayed in three components – invested in capital assets, net of related debt; restricted; and unrestricted. The component of net assets comprising invested in capital assets, net of related debt, includes restricted capital assets, is net of accumulated depreciation and reduced by the outstanding balances of any outstanding debt that is attributable to the acquisition, construction or improvement of those assets.

The Statements of Revenues, Expenses and Changes in Net Assets categorize revenues and expenses as either operating or non-operating based upon management's policy, as defined by the Enabling Act and the 1978 Trust Agreement, as to what constitutes the Authority's primary operations. Certain recurring sources of the Authority's revenues, including PFCs, investment income and federal capital grants, are reported as non-operating revenues and their use is restricted. Operating revenue for the years ended June 30, 2004, 2003 and 2002 totaled $415.0 million, $373.8 million and $317.9 million, respectively. Operating expense for the years ended June 30, 2004, 2003 and 2002 totaled $381.3 million, $348.4 million and $300.9 million, respectively. In fiscal year 2004, the Authority had net nonoperating expenses of $15.7 million, comprised of revenues of $44.1 million and expenses of $59.8 million. In fiscal year 2003, the Authority realized net nonoperating expenses of $9.2 million, comprised of revenues of $40.6 million and expenses of $49.8 million; and in fiscal year 2002, the Authority realized net nonoperating revenues of $8.6 million, comprised of revenues of $49.3 million and expenses of $40.6 million. Capital grant revenues for the years ended June 30, 2004, 2003 and 2002 are $90.1 million, $44.0 million and $15.5 million, respectively.

The Statements of Cash Flows present information showing how the Authority's cash and cash equivalents position changed during the fiscal year. The Statements of Cash Flows classify cash receipts and cash payments as resulting from operating activities, capital and related financing activities, and investing activities. Cash and cash equivalents on June 30, 2004 were $117.8 million. The comparable figures for June 30, 2003 and June 30, 2002 were $209.5 million and $92.0 million, respectively.

**Authority's Management Highlights**

During fiscal year 2004, the Authority's financial position strengthened as passengers and operations rebounded modestly, and the Authority continued its efforts to diversify revenues. The Authority also continued to play a leadership role among U.S. airports in establishing new standards for aviation security. Significant progress has now been made on the Authority's extensive capital revitalization begun in 1995. The new facilities, recently placed in service, have improved access to and around the Airport, renovated and expanded terminal and roadway facilities, and enhanced security; however, they have also added new operating expenses. To accommodate these new costs, stringent controls have been placed on other areas of the Authority's operating budget. In this effort, the Authority implemented a comprehensive organizational alignment during fiscal year 2004 to achieve greater operating effectiveness and enhanced focus on financial performance. This realignment was achieved within the existing level of authorized positions, which remained 15% below the pre-9/11 level. The improvement in the Authority's financial performance and fiscal year 2004's increased numbers of passengers and parkers have occurred at a time of major change in the airlines that serve the traveling public. Operations and passenger share of low fair carriers at Logan Airport increased significantly during fiscal year 2004, even as the older legacy carriers continued to experience operating losses nationally.

Responding to both on-going financial instability in the aviation industry and additional capital and operating costs related to achieving heightened security, the Authority continued to follow the principles of the comprehensive financial recovery plan it implemented immediately following September 11, 2001 ("9/11"). The data presented in the Management's Discussion and Analysis include comparative information for fiscal years 2003 and 2002. It is important to note, however, that the Authority's financial and operational results for fiscal year 2002 were significantly affected by the events of 9/11 and their aftermath. Although the financial and operational results for subsequent fiscal years show recovery from the levels of fiscal year 2002, readers are cautioned against extrapolating from such data, as the historical rate of growth of the Authority's financial and operational results varies significantly from that experienced in fiscal year 2002 through fiscal year 2004.

**Authority's Activity Highlights**

***Revenue Recovery.*** Fiscal year 2004's Operating Revenues of $415.0 million were 11.0% ahead of fiscal year 2003's operating revenues and 30.5% ahead of those in fiscal year 2002. Revenues from operations at Logan Airport reflected increased activity levels. While passengers increased by only 1.5% in July – December of fiscal year 2004 over fiscal year 2003, passengers grew by 9% for fiscal year 2004 as a whole compared to the prior fiscal year. Fiscal year 2004's passengers were 11.0% above those for fiscal year 2002, which was affected by the events of 9/11. The Authority earned $75.0 million in landing fees in fiscal year 2004, an 8.8% increase over fiscal year 2003, when the Authority earned $69.0 million in landing fees. This increase was entirely due to the growth in the landed weights and operations in fiscal year 2004, as the landing fee for fiscal year 2004 of $3.58 per thousand pounds of landed weight was below the fee of $3.76 charged in the prior year. Fiscal year 2004 landing fee revenues represent a 51% increase over the comparable figure of $49.7 million in fiscal year 2002, the year most heavily affected by 9/11.

Unlike many airport operators, the Authority is not constrained by contractual arrangements with the air carriers serving the Airport governing the incurrence of aeronautical costs and the recovery of such costs in the landing fee and terminal rentals. Instead, landing fees and terminal rentals are set annually by the Authority on a compensatory basis to cover direct and allocated capital, administration, maintenance and operating costs. Accordingly, each October, the Authority establishes the landing fee for the Airport per thousand pounds of landed weight and the rental rates for the terminals, based upon historical capital costs and projected landed weights and the budgeted direct and allocable indirect operating costs of

providing these facilities for that fiscal year, plus an adjustment for the actual versus the prior year's budgeted revenues and expenses.

The Authority establishes landing fee rates based on projected aircraft landed weights for each year. Any variance from these projections generally is adjusted in the next year's calculation, although the Authority has the ability to adjust the landing fee during the year. The landing fee for fiscal year 2003 increased significantly over the prior fiscal year, largely due to decreases in actual and projected landed weights. The landing fee for fiscal year 2003 increased by $1.41 per thousand pounds of landed weight over the landing fee for fiscal year 2002. Of the $1.41 increase in the landing fee, approximately $1.14 was attributable to reduced landed weights during fiscal year 2002. Unpaid landing fees are generally recovered by amortizing bad debts over five years and adding such amounts to the landing fee. By contrast, the landing fee for fiscal year 2004 was $3.58 or 18 cents below the fee for fiscal year 2003, largely because there was a much smaller shortfall in the prior year's landed weights. The landing fee for fiscal year 2005, effective October 1, 2004, will further decrease to $3.07 per thousand pounds of landed weight, reflecting increased operations in fiscal year 2004, as well as projected activity for fiscal year 2005.

***Security Initiatives.*** The Authority has undertaken a number of new security initiatives, the most ambitious of which are the terminal modifications required to house the Transportation Security Administration's ("TSA") new baggage screening equipment and personnel. In June 2002, the Airport became the first U.S. airport to receive the TSA's approval for its in-line hold baggage screening program, and less than three weeks later, the Authority commenced construction of $146 million of terminal modifications required to permanently house the TSA's program. On January 1, 2003, the TSA commenced screening all checked baggage at Logan Airport for explosives. The Authority's terminal modifications integrating the TSA's explosive detection devices with the various in-line baggage systems at the Airport are substantially complete. In September 2002, the FAA awarded a discretionary $30 million Airport Improvement Program grant to the Authority for this project. The Authority has also entered into a Letter of Intent (LOI) with the TSA providing for grant funding by the TSA of up to 75% of the remaining costs of the project. In fiscal year 2004, the TSA reimbursed the Authority $58 million, representing the first two years of payments under the LOI.

Well before the events of September 11, 2001, the Authority hired outside experts to suggest ways to improve security at the Airport and other Authority facilities. The fiscal year 2004- fiscal year 2008 Capital Program described below budgets $74.7 million for security projects at the Airport, including the remainder of the $146 million for hold baggage terminal modifications described above. The capital plan for the Authority's other facilities also includes investments in projects designed to increase security. The security enhancement program at the Airport includes renovations to the South and North gates to the public airfield, security walls at Terminal E, security cameras at various locations and other measures designed to increase perimeter security at the Airport. In September 2004, the Airport Security Report bestowed upon the Authority its " Exceptional Performance in Airport Security Award " in recognition of the achievements at Logan Airport to further safety and security.

**Conditions of the Air Carriers**

***Growth in Low Fare Carriers.*** Following energetic marketing, JetBlue commenced service from Logan Airport in January 2004. By the end of the six months from January through June 2004, JetBlue was the sixth largest carrier at Logan Airport in terms of passenger share. Thus, Logan Airport now has six low fare carriers including AirTran, America West, ATA, Independence Air, JetBlue, and Song, providing low fare options that mirror the diversity of all carriers that has long characterized the Airport's air service market.

***Airline Bankruptcies.*** The financial stress affecting the legacy air carriers, all of which operate at Logan Airport, has been the subject of much discussion. In order to minimize any potential losses, the Authority actively monitors past due balances due to bankruptcy proceedings, aggressively pursues overdue amounts and bankruptcy claims, and includes an allowance for uncollectible debts in its landing fee rates. Three airlines operating at the Airport, Air Canada, US Airways and United Air Lines ("United"), which together accounted for 23.5% of enplanements at the Airport in fiscal year 2004, have filed for bankruptcy protection. US Airways and its affiliates filed for bankruptcy protection in August 2002 and on March 31, 2003, they emerged from bankruptcy protection. Upon emergence from bankruptcy protection, US Airways and its affiliates assumed all leases and executory contracts relating to their operations at Logan Airport. However, on September 9, 2004 US Airways again filed for bankruptcy. Neither United nor Air Canada, which together accounted for 10% of Logan's passengers in fiscal year 2004, has rejected its executory leases at Logan Airport, and each has continued to make its rental payments with respect to rent due after the date such carrier filed for bankruptcy protection.

**Logan Airport Enplanements and Operations Activity for FY 2004, 2003 & 2002**

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Enplanements | | | |
| Domestic | 10,195,648 | 9,343,669 | 9,121,999 |
| International | 2,040,079 | 1,906,562 | 1,904,246 |
| General Aviation | 43,234 | 47,072 | 46,302 |
| Total Enplanements | 12,278,961 | 11,297,303 | 11,072,547 |
| Aircraft Operations (take-offs and landings) | 386,021 | 381,425 | 409,000 |
| Landed Weights (1,000 pounds) | 19,863,570 | 19,576,341 | 19,871,952 |

**Financial Highlights**

The financial results for fiscal year 2004 showed clear improvement over the prior year. Operating income of $33.7 million was $8.3 million or 32.7% greater than the operating income of fiscal year 2003 and $16.7 million or 98.2% greater than that of fiscal year 2002. As of June 30, 2004, the Authority had net assets of $1,241.9 million, an increase of $108.1 million or 9.5% over fiscal year 2003 and of $168.3 million or 15.7% over fiscal year 2002. These results are attributed to a variety of factors, including the return of passengers and operations, albeit at a level that still remains below pre-9/11 levels. The Authority carefully managed the revenues and costs within its control with an emphasis on increasing and diversifying non-airline revenues, including increasing ground transportation fees, and securing Federal Emergency Management Agency ("FEMA") reimbursements for snow removal and TSA reimbursements for certain costs of security under Level Orange. In addition, revenues were enhanced by the Bridge toll increase in April 2004. The exceedingly cold winter, with a major snow storm in December, and the Authority's commitment to leadership in airport security, added to the pressure on expenses. Nonetheless, the expense controls introduced in the financial recovery plan for fiscal year 2002 and the focus on reducing administrative expenses were continued through fiscal year 2004, freeing up cash for these important commitments (see *Budget Highlights* below).

The results for fiscal year 2004 were better than forecasted in the budget. Revenues, calculated in accordance with the 1978 Trust Agreement, were $421.5 million, approximately $30.6 million greater

than projected in the fiscal year 2004 budget, and actual operating expenses were $243.9 million, which was within plan.. Operating expenses were contained by continuing to hold the line on fiscal year 2002's reduction in staff of approximately 15%. However, during fiscal 2004 management accomplished significant organizational realignment of those positions to reduce administrative expenses and to increase the facility management's focus on profit and loss. Operating expenses were also affected by significant increases in costs related to operation of new facilities and for security services, principally the cost of additional public safety personnel and related overtime. The fiscal year 2004 budget continued the amount deposited to the Maintenance Reserve Fund at 1% of the replacement cost of the Authority's facilities and the Payment in Lieu of Taxes Fund was fully funded.

Summaries of revenues and expenses, calculated according to Generally Accepted Accounting Principles ("GAAP"), for fiscal year 2004, as compared to fiscal year 2003, and fiscal year 2003 as compared to fiscal year 2002, are set forth below. Federal grants were received during fiscal year 2004 for a portion of the incremental operating costs associated with enhanced security services. Unlike grants in aid of capital projects, which are treated as an increase in net assets, these payments are reflected as operating revenues.

The fiscal year 2004 operating revenue for the Authority was $415.0 million, an increase of $41.2 million when compared to fiscal year 2003 and $97.1 million when compared to fiscal year 2002. This result is largely attributable to increases in parking revenue, terminal rentals, landing fee revenue, and Bridge toll increases. The data presented herein include comparative information for fiscal years 2003 and 2002. The Authority's financial and operational results for fiscal year 2002 were significantly affected by the events of 9/11. Although the financial and operational results for subsequent fiscal years show recovery from the levels of fiscal year 2002, the historical rate of growth of the Authority's financial and operational results varies significantly from that experienced from fiscal years 2002 through 2004.

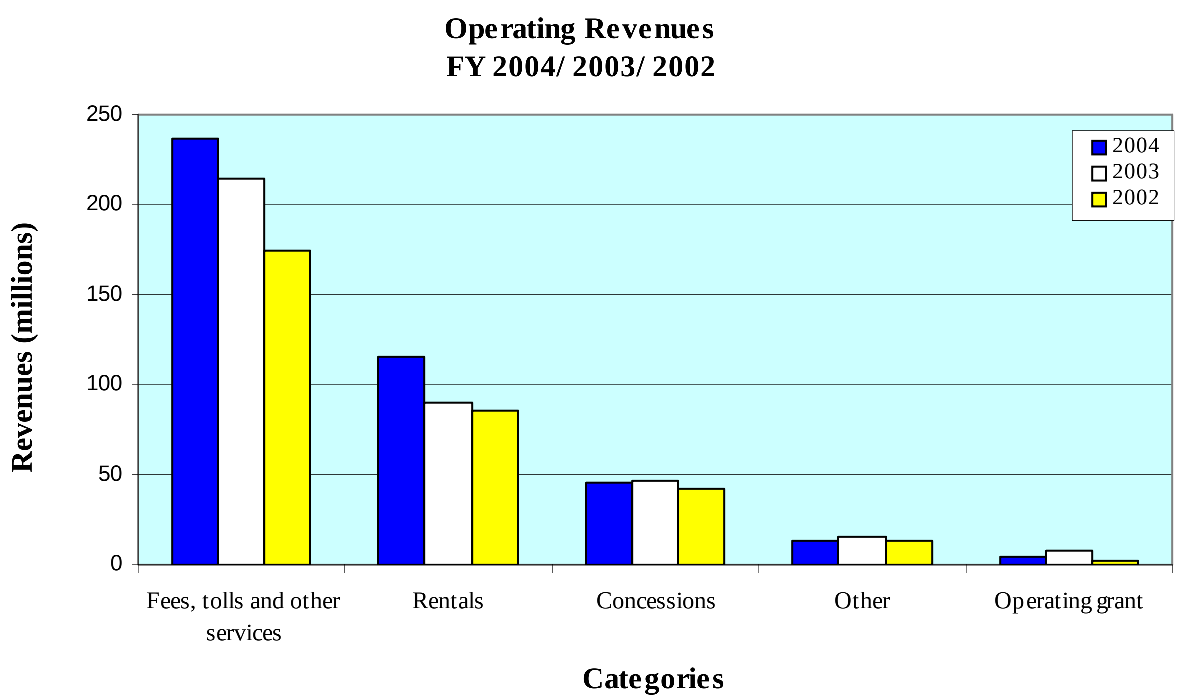
| **Operating Revenues (in millions)** | **2004** | **2003** | **Increase from 2003** | **Percent of Increase from 2003** |
|---|---|---|---|---|
| Fees, tolls and other services | $ 236.3 | $ 214.1 | $ 22.2 | 10% |
| Rentals | 115.2 | 90.4 | 24.8 | 27% |
| Concessions | 45.1 | 46.8 | (1.7) | -4% |
| Other | 13.5 | 15.1 | (1.6) | -11% |
| Operating grant | 4.9 | 7.3 | (2.4) | -33% |
| Total | $ 415.0 | $ 373.8 | $ 41.2 | 11% |

Column totals might not add due to rounding.

| **Operating Revenues (in millions)** | **2003** | **2002** | **Increase from 2002** | **Percent of Increase from 2002** |
|---|---|---|---|---|
| Fees, tolls and other services | $ 214.1 | $ 174.5 | $ 39.6 | 23% |
| Rentals | 90.4 | 85.1 | 5.3 | 6% |
| Concessions | 46.8 | 42.7 | 4.1 | 10% |
| Other | 15.1 | 12.8 | 2.3 | 18% |
| Operating grant | 7.3 | 2.7 | 4.5 | 167% |
| Total | $ 373.8 | $ 317.9 | $ 55.9 | 18% |

Column totals might not add due to rounding.

The following is a graphic illustration of operating revenues according to GAAP by source for the years ended June 30, 2004, 2003 and 2002:




The fiscal year 2004 operating expenses for the Authority were $381.3 million, an increase of $32.9 million over fiscal year 2003 and $80.4 million over fiscal year 2002. Expense growth during this period was driven by the operation and maintenance of new facilities coming on line; new security costs, including those related to operating and maintaining the baggage screening system; an increase in pension payments; increased insurance costs; and the increased depreciation associated with completing several major capital projects.

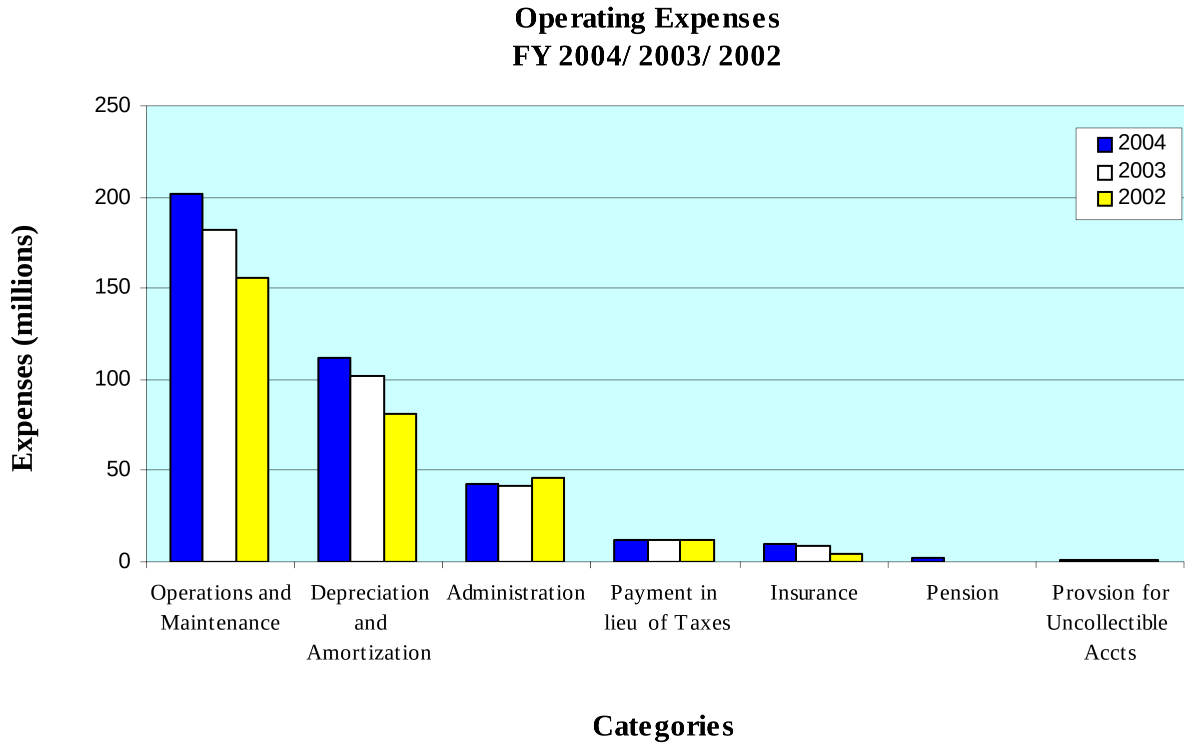
| Total Operating Expenses (in millions) | 2004 | 2003 | Increase (Decrease) from 2003 | Percent of Increase (Decrease) from 2003 |
|---|---|---|---|---|
| Operations and maintenance | $ 201.4 | $ 181.8 | $ 19.6 | 11% |
| Administration | 43.1 | 41.8 | 1.3 | 3% |
| Insurance | 10.2 | 8.7 | 1.5 | 17% |
| Pension | 1.8 | - | 1.8 | 100% |
| Payments in lieu of taxes | 12.4 | 12.6 | (0.2) | -2% |
| Provision for uncollectible accounts | 0.6 | 1.2 | (0.6) | -50% |
| Depreciation and amortization | 111.7 | 102.4 | 9.3 | 9% |
| Total | $ 381.3 | $ 348.4 | $ 32.9 | 9% |

Column totals might not add due to rounding.

| Total Operating Expenses (in millions) | 2003 | 2002 | Increase (Decrease) from 2002 | Percent of Increase (Decrease) from 2002 |
|---|---|---|---|---|
| Operations and maintenance | $ 181.8 | $ 155.5 | $ 26.3 | 17% |
| Administration | 41.8 | 46.0 | (4.2) | -9% |
| Insurance | 8.7 | 4.3 | 4.4 | 102% |
| Payments in lieu of taxes | 12.6 | 12.2 | 0.4 | 3% |
| Provision for uncollectible accounts | 1.2 | 1.3 | (0.1) | -8% |
| Depreciation and amortization | 102.4 | 81.6 | 20.8 | 25% |
| Total | $ 348.4 | $ 300.9 | $ 47.5 | 16% |

Column totals might not add due to rounding.

The following is a graphic illustration of the total operating expenses according to GAAP by type for the years ended June 30, 2004, 2003 and 2002:



**Changes in Net Assets**

The change in net assets is an indicator of whether the overall fiscal condition of the Authority has improved or declined during the year. The changes in net assets for the years ended June 30, 2004, 2003 and 2002 were increases of $108.1 million, $60.2 million and $41.1 million, respectively. Operating income for fiscal year 2004 of $33.7 million was $8.3 million or 32.7% greater than fiscal year 2003 and $16.7 million or 98.2% greater than fiscal year 2002. Non-operating revenues include PFCs and investment income. PFC revenues in fiscal year 2004 of $32.8 million were 13% greater than PFC revenues of $29.1 million in fiscal year 2003 and 11.6% greater than PFC revenues of $29.4 million in fiscal year 2002. Investment income declined to $10.2 million in fiscal year 2004 from $11.5 million in fiscal year 2003 and $19.8 million in fiscal year 2002 as interest rates fell and large capital expenditures drew down the balances available for investment. Non-operating revenues for fiscal year 2004 also include receipt of a $1 million settlement of a business interruption claim arising from the events of 9/11. Non-operating expenses of $59.8 million increased by $10.0 million from 2003 and $19.2 million from 2002, primarily due to an increase in interest expense associated with an end to the capitalized interest on certain projects. The combined changes in net non-operating revenues and expenses were a net expense of $15.7 million in fiscal year 2004 in contrast to a net expense of $9.2 million in fiscal year 2003 and a net revenue of $8.6 million in fiscal year 2002. Capital grant revenue for fiscal year 2004 was $90.1 million, and includes a $58 million reimbursement from the TSA to cover a portion of the capital cost of the $146 million hold baggage system. Because of this one large reimbursement, the fiscal year 2004 capital grant reimbursements are 105% greater than fiscal year 2003's capital grant revenue of $44.0 million and 481% greater than the fiscal year 2002 figure of $15.5 million.

The following is a summary of the Statement of Revenues, Expenses and Changes in Net Assets:

| | (in millions) | | |
|---|---|---|---|
| | **2004** | **2003** | **2002** |
| Operating Revenue | $ 415.0 | $ 373.8 | $ 317.9 |
| Operating Expense | (381.3) | (348.4) | (300.9) |
| Operating Income | 33.7 | 25.4 | 17.0 |
| Non-Operating Revenue | 44.1 | 40.6 | 49.3 |
| Non-Operating Expense | (59.8) | (49.8) | (40.6) |
| Non-Operating Revenue (expenses) | (15.7) | (9.2) | 8.6 |
| Capital Grant Revenue | 90.1 | 44.0 | 15.5 |
| Change in Net Assets | $ 108.1 | $ 60.2 | $ 41.1 |

Column totals might not add due to rounding.

**Balance Sheets**

The balance sheets present the financial position of the Authority at the end of the fiscal year. The statement includes all assets and liabilities of the Authority. Net assets are the difference between total assets and total liabilities and are an indicator of the current fiscal health of the Authority. A summarized comparison of the Authority's assets, liabilities and net assets at June 30, 2004, 2003 and 2002 is as follows:

| | (in millions) | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| Assets | | | |
| Current assets | $ 154.5 | $ 108.0 | $ 118.3 |
| Non-current assets | | | |
| Capital assets, net | 2,194.2 | 2,102.8 | 1,779.1 |
| Other non-current assets | 555.0 | 568.8 | 553.3 |
| Total Assets | $ 2,903.7 | $ 2,779.5 | $ 2,450.8 |
| Liabilities | | | |
| Current liabilities | $ 168.0 | $ 117.9 | $ 117.5 |
| Non-current liabilities | | | |
| Funded debt outstanding | 1,435.4 | 1,470.7 | 1,213.2 |
| Other non-current liabilities | 58.4 | 57.1 | 46.5 |
| Total Liabilities | 1,661.8 | 1,645.7 | 1,377.1 |
| Net Assets | | | |
| Invested in capital assets, net of debt | 777.5 | 701.4 | 615.0 |
| Restricted | 402.9 | 396.1 | 396.6 |
| Unrestricted | 61.5 | 36.3 | 62.0 |
| Total Net Assets | 1,241.9 | 1,133.8 | 1,073.6 |
| Total Liabilities and Net Assets | $ 2,903.7 | $ 2,779.5 | $ 2,450.8 |

Column totals might not add due to rounding.

The Authority ended fiscal year 2004 with assets of $2.9 billion, and with liabilities of $1.7 billion and net assets of $1.2 billion.

The Authority has investments in facilities of $2,194.2 million, including both fully completed facilities and construction-in-progress, an increase of $91.4 million from 2003 and $415.1 million from 2002. The Authority's capital assets are principally funded by the proceeds of revenue bonds, Authority revenues, PFCs and capital contributions from federal grants. Assets, other than capital assets which are stated at historical cost less an allowance for depreciation, and liabilities are determined using current values.

In fiscal year 2004 the Authority increased the amount of commercial paper outstanding from $42 million to $50 million. Long-term debt outstanding decreased by $35.3 million due to the payment of annual principal installments. Other liabilities increased by $49.3 million, principally related to accrued expenses for the acquisition of capital assets and accounts payable, an increase in current maturities of funded debt and an increase in accrued interest payable.

Net assets, which represent the residual interest in the Authority's assets after liabilities are deducted, were $1,241.9 million at June 30, 2004, an increase of $108.1 million from fiscal year 2003 and $168.3 million from fiscal year 2002. Those net assets invested in capital assets, net of related debt, increased to $777.5 million, an increase of $76.1 million and $162.5 million over fiscal years 2003 and 2002, respectively. The Authority's restricted assets of $402.9 million as of June 30, 2004, are subject to the pledge of the 1978 Trust Agreement or the PFC Trust Agreement. The remaining unrestricted assets of $61.5 million are deposited in the Improvement and Extension Fund and may be used for any lawful purpose of the Authority, and have been fully committed to support the Authority's capital program.

***Budget Highlights***

The Authority is required to prepare its budget according to the 1978 Trust Agreement rather than according to GAAP. The annual budget includes the projected operating expenses, as well as projected revenue of the Authority, and also sets forth the deposits to the funds established under the 1978 Trust Agreement necessary to meet the covenants set forth therein. The 1978 Trust Agreement also provides that the Authority may at any time adopt an amended or supplemental budget for the remainder of the then current fiscal year.

On June 12, 2003, the Authority adopted a budget for fiscal year 2004 that projected revenues of $390.9 million and approved an operating expense limit of $244.6 million. The FY04 operating budget was 8.7% greater than the level of expenses budgeted for FY03 and was slightly below the original FY02 budget. The FY04 budget provided $6.8 million in new security costs beyond the significant security spending in the FY03 base. The FY04 budget accommodated significant organizational realignment within the existing number of positions, which remained 15% below the pre-9/11 level.

**FY2004 Budget vs. Actual Results**
**(Per 1978 Trust Agreement)**
**(in millions)**

| | FY2004 Budget | FY2004 Results | FY2003 Results | FY2002 Results |
|---|---|---|---|---|
| Operating Revenues | $ 390.9 | $ 421.5 | $ 373.7 | $ 329.6 |
| Operating Expenses | $ 244.6 | $ 243.9 | $ 223.8 | $ 203.5 |

Logan Airport is the principal source of the Authority's operating revenues, operating income and net revenue. Landing fees, terminal rentals and other aeronautical fees are set annually by a resolution of the Members of the Authority on a compensatory basis to cover direct and allocated capital, administration, maintenance and operating costs. Accordingly, as described above, the Authority establishes the landing fee and the rental rates for the terminals at the Airport annually on a compensatory basis. In addition, as discussed above, the Authority retains the ability to adjust parking rates, Bridge tolls and other fees and charges for use of its facilities.

**Cash and Investment Management**

The Authority's cash and cash equivalents totaled $117.8 million on June 30, 2004, a decrease from $209.5 million on June 30, 2003 but an increase over the $92.0 million figure for June 30, 2002. Cash and cash equivalents are considered highly liquid investments with an original maturity of thirty (30) days or less. In fiscal year 2003, the Authority issued its Revenue Bonds and Revenue Refunding Bonds, Series 2003-A, 2003-B and 2003-C pursuant to the 1978 Trust Agreement (the "2003 Bonds"), and applied a portion of the proceeds of the 2003 Bonds to fund acquisition and construction of certain capital assets and pay the principal of certain refunded debt. Additional proceeds of the 2003 Bonds were invested, pending application of such proceeds to payment of construction costs of certain capital assets. Fiscal year 2004 saw a decrease in the purchases of investments, and a decrease in the proceeds from sales and maturities of investments, as cash was applied to the acquisition and construction of capital assets, which drew down balances available for investment.

The following summary shows the major sources and uses of cash:

| | (in millions) | | |
|---|---|---|---|
| | 2004 | 2003 | 2002 |
| Net cash provided by operating activities | $ 152.6 | $ 135.2 | $ 101.0 |
| Net cash used for capital and related financing activities | (140.9) | (154.0) | (212.2) |
| Net cash provided by investing activities | (103.4) | 136.3 | 123.0 |
| Net increase in cash and cash equivalents | (91.7) | 117.5 | 11.8 |
| Cash and cash equivalents, beginning of year | 209.5 | 92.0 | 80.2 |
| Cash and cash equivalents, end of year | $ 117.8 | $ 209.5 | $ 92.0 |

Cash received during the year or required for the needs of the Authority was invested in demand deposits, the Massachusetts Municipal Depository Trust ("MMDT"), U.S. Government and agency obligations, repurchase agreements collateralized by U.S. Government or agency obligations, certificates of deposit, and other permitted investments under the 1978 Trust Agreement or the PFC Trust Agreement. During fiscal 2004, the Authority's daily average portfolio balance of funds held under the 1978 Trust Agreement was $461.2 million and the average yield on investments was 1.00%. During fiscal 2004, the Authority's average portfolio balance of funds held under the PFC Trust Agreement, was $53.4 million and the average yield on investments was 3.88%.

Certain funds held as debt service reserves as required by PFC Trust Agreement are invested in long-term instruments. An annual cash flow projection for capital projects is developed for all bond proceeds as well as for the Maintenance Reserve and Improvement & Extension funds and the PFC Capital Fund, and investments are matched to optimize investment income after ensuring cash is available for capital project expenses and maintaining the principal value of each fund.

All investments must be made pursuant to the investment policy adopted in 2000 by the Members of the Authority. The majority of the Authority's funds, including investments, are held by the Trustees under the 1978 Trust Agreement or the PFC Trust Agreement, respectively, or custodians for such Trustees, and are invested at the direction of the Authority. An investment committee meets monthly to review projected cash flow needs and investments, and an investment oversight committee meets quarterly to review the Authority's existing portfolios for compliance with the investment policy and comparability with external benchmarks, and to revise the existing investment strategies for the Authority's various funds, if necessary.

**The Authority's Capital Program**

***Fiscal Year 2004-Fiscal Year 2008 Capital Program.*** On February 12, 2004, the Members of the Authority approved its capital program for fiscal years 2004 through 2008 (the "FY04-FY08 Capital Program"). The FY04-FY08 Capital Program includes total expenditures of $1.91 billion for ongoing projects and projects to be commenced during the five-year program period, including $771 million in projects that will only be executed if they are funded through third-party or non-recourse funding sources. This program includes funding for a number of security initiatives, including improvements to perimeter security at Logan Airport.

The FY04-FY08 Capital Program represents a comprehensive and coordinated capital improvement and financial master plan for all Authority facilities. The program was developed to be consistent with the

Authority's goals of funding security initiatives and airfield operation enhancements, maximizing FAA and TSA grant receipts, securing and utilizing a $4.50 PFC, and avoiding increasing Airport rates and charges to levels that could lead to significant service reductions. In 1995, the Authority embarked on a major capital program to repair, modernize and revitalize the physical plant at Logan Airport and to improve the infrastructure at each of the Authority's facilities. Continuing the efforts to renew Logan Airport and the Authority's other facilities, the FY04-FY08 Capital Program allocates $1.14 billion of Authority funding to important initiatives to address the current security challenges facing the aviation industry, to maintain and enhance the public airfield, to add significant improvements to the public parking facilities at the Airport, and to upgrade each of the Authority's facilities generally. At the same time, the Authority continues to strive to avoid or minimize adverse local and regional impacts associated with operations at the Airport and the Authority's other facilities.

During fiscal year 2003, the Authority expended $413.3 million in its on-going capital program. Major projects substantially completed in fiscal year 2003 were the terminal retrofits to accommodate the TSA's explosive detection systems, the moving walkways from the Central Garage to Terminal C, Logan Airport's new two-level outbound roadway and the South Addition to the International Gateway at Terminal E.

During fiscal year 2004, the Authority expended $168.5 million in its on-going capital program. Major projects substantially completed in fiscal year 2004 include the overlay of Runway 4L/22R, the roadway segments providing access to the new Airport T Station, and the South Boston Maritime Park located on D Street between the new convention center and the Fish Pier. In fiscal year 2004 work commenced on the renovation of the Central Garage at the Airport, which includes completely rebuilding the two lower floors of that garage and adding three new levels to that structure. Major on-going projects that are scheduled for completion in fiscal year 2005 or beyond at the Airport include the reconstruction of Terminal A, the International Gateway, the enhanced security program, residential soundproofing in nearby communities and certain Terminal Area Roadway improvements.

**Capital Financing and Debt Management**

As of June 30, 2004, outstanding obligations of the Authority issued pursuant to the 1978 Trust Agreement and the PFC Trust Agreement totaled approximately $1.5 billion including the Subordinated Revenue Bonds. (Special facilities revenue bonds issued on behalf of and payable by certain borrowers are excluded.) In fiscal year 2004, the total amount deposited to pay debt service on obligations issued pursuant to the 1978 Trust Agreement (not including subordinate obligations) was an aggregate of principal and interest of $76.7 million, while the total amount deposited to pay debt service on bonds issued pursuant to the PFC Trust Agreement was an aggregate of principal and interest of $21.5 million.

In fiscal year 2004, the Authority received a Letter of Intent from the FAA to provide grants in aid of the Authority's airside improvement program in the amount of $90.8 million spread over an eight-year period, commencing in federal fiscal year 2005. Other key financial accomplishments in FY04 include an increase in the outstanding commercial paper program to $50 million and the bidding and completion of a nine-year Forward Delivery Agreement for the debt service accounts for the Series 2003A and 2003C Bonds that will yield 5.045%.

***Credit Ratings:***

The Authority's revenue bonds are rated AA- by Fitch, Aa3 by Moody's Investors' Services ("Moody's") and A+ by Standard and Poor's Ratings ("S&P"). When the Authority issued the 2003 Bonds in May 2003, these ratings were confirmed by each of the rating agencies. In August 2004, Moody's raised the outlook on the Authority's bonds to stable. The Authority's PFC Revenue Bonds are insured by Financial Security Assurance Inc. and are rated AAA, Aaa and AAA, as insured, by each of Fitch, Moody's, and

S&P, respectively. The Authority's Commercial Paper Notes are rated A-1+ and P-1 by S&P and Moody's, respectively, based on credit enhancement provided by WestLB AG.

***Authority Obligations:***
The following is a summary of outstanding obligations issued by the Authority as of June 30, 2004:

***2003 Bond Issue.*** On May 29, 2003, the Authority issued $388,195,000 of its Revenue and Revenue Refunding Bonds, Series 2003-A, B and C (the "2003 Bonds"). The 2003-A Bonds and the 2003-B Bonds were issued, in part, to finance a portion of the Authority's capital program. The 2003-B Bonds were also issued, in part, to currently refund all of the Authority's Revenue Bonds, Series 1992-A and the 2003-C Bonds were issued to currently refund all of the Authority's Revenue Bonds, Series 1992-B and all of the Authority's Revenue Refunding Bonds, Series 1993-A and B. The Official Statement relating to the Authority's 2003 Bonds is available from the Authority or by accessing the Authority's website. On March 20, 2003, the Authority renewed its commercial paper program in an aggregate amount not to exceed $100 million, and entered into a three-year Letter of Credit and Reimbursement Agreement with WestLB AG, New York Branch, to provide security for the commercial paper program.

***Revenue Bonds***

- The Authority had 13 series of Revenue Bonds (including Revenue Refunding Bonds) outstanding pursuant to the 1978 Trust Agreement in a total principal amount of $1.12 billion.
- While 12 of these series are fixed rate debt, the 2003-B Bonds are auction rate securities. This series is subject to the Alternative Minimum Tax, is insured by MBIA, and Citigroup and Lehman Brothers serve as Broker Dealers for the auctions that are held every 35 days. (MBIA also insures the fixed rate 2003-A and 2003-C Bonds.)
- The Authority had six series of Subordinated Revenue Bonds, in the aggregate principal amount of $74 million, outstanding pursuant to the 1978 Trust Agreement.

***Commercial Paper***

- The total amount of Commercial Paper Notes outstanding pursuant to the 1978 Trust Agreement was $50 million as of June 30, 2004.
- The total amount of Commercial Paper Notes authorized was up to $100 million.
- The Authority's Commercial Paper Notes are secured by a letter of credit issued by West LB AG in a principal amount of up to $100 million.

***PFC Revenue Bonds·***

- The Authority has issued two series of PFC Revenue Bonds pursuant to the PFC Trust Agreement, with $221.7 million outstanding as of June 30, 2004.

***Special Facilities Revenue Bonds***

- As of June 30, 2004, the Authority had approximately $773.7 million of special facilities revenue bonds outstanding, in nine separate series of bonds.
- As a result of the bankruptcy of United Air Lines, Inc., the trustee for the Authority's Special Facilities Revenue Bonds (United Air Lines, Inc., Project), Series 1999A has declared an event of default with respect to such bonds.
- The principal of and interest on each series of the special facilities revenue bonds issued by the Authority are special obligations of the Authority, payable solely from the sources of payment and to the extent provided in the resolutions establishing and authorizing the issuance of such bonds. The special facilities revenue bonds are not and shall never be general obligations of the Authority or of the Commonwealth or of any political subdivision thereof.

***Other Obligations***

- From time to time the Authority has guaranteed or provided other credit support for debt obligations issued by or on behalf of its tenants.
- The Authority entered into an interest rate swap agreement, effective July 1, 2002, with Citigroup Financial Products ("Citigroup"), which is guaranteed by Citigroup Global Market Holding, Inc., in the notional amount of $100 million pursuant to which the Authority will receive 4.05% and pay Citigroup the Bond Market Association index on the notional amount for the period from July 1, 2002 through June 30, 2012. The Authority is treating this transaction as a synthetic variable rate refunding of $56 million of its Revenue Bonds, Series 1999-D and $44 million of its Revenue Bonds, Series 1998-E. In fiscal year 2004, Massport received four quarterly net payments from the swap counterparty totaling $3,043,855. $1,704,559 was applied to the debt service for the 1999-D Bonds and $1,339,296 was applied to the debt service for the 1998-E Bonds.

The Authority is financing its construction program through a combination of the Authority's revenues, entitlement and discretionary grants received from the FAA, grants received from the TSA, PFCs, commercial paper and revenue bonds. Long-term debt is the principal source of funding for the Authority's capital program. The Authority, through the 1978 Trust Agreement, has covenanted to maintain a debt service coverage ratio of not less than 1.25. Debt service coverage is calculated based on a formula set forth in the 1978 Trust Agreement. Historically, the Authority has maintained a coverage ratio significantly higher than its requirement. As of June 30, 2004, 2003 and 2002, respectively, the Authority's debt service coverage under the 1978 Trust Agreement was 2.20, 2.02 and 1.81. As of June 30, 2004, 2003 and 2002, the Authority's PFC debt service coverage under the PFC Trust Agreement was 1.62*, 1.69 and 2.27, respectively.

**Contacting the Authority's Financial Management**

For additional information concerning the Authority, please see the Authority's award winning website, www.massport.com. Financial information can be found in the Investor Relations section of the website by clicking on "About Massport", and then clicking on "Who We Are". The Authority's executive offices are located at One Harborside Drive, Suite 200S, East Boston, Massachusetts 02128, and the main telephone number is (617) 426-2800. Questions may be directed to Leslie A. Kirwan, the Authority's Director of Administration and Finance and Secretary-Treasurer.

*Revised November 16, 2004

# Massachusetts Port Authority
## Balance Sheets
## June 30, 2004 and 2003
## (In Thousands)

| ASSETS | 2004 | 2003 |
|---|---|---|
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 43,136 | $ 42,021 |
| Investments | 63,383 | 31,748 |
| Accounts receivable – net of allowance for doubtful accounts of $11,825 and $12,321 as of June 30, 2004 and 2003, respectively | 30,107 | 23,401 |
| Accounts receivable-grants | 13,446 | 6,728 |
| Prepaid expenses and other assets | 4,386 | 4,087 |
| Total current assets | 154,458 | 107,985 |
| NONCURRENT ASSETS | | |
| Assets whose use is limited | | |
| Cash and cash equivalents | 74,624 | 167,472 |
| Investments | 414,091 | 331,073 |
| Prepaid expenses and other assets | 21,066 | 22,671 |
| Investment in joint venture | 3,650 | 4,362 |
| Intangible assets, net | 41,635 | 43,177 |
| Capital Assets | | |
| Completed facilities | 3,181,078 | 2,935,561 |
| Less accumulated depreciation | (1,176,266) | (1,067,634) |
| | 2,004,812 | 1,867,927 |
| Construction in progress | 189,393 | 234,849 |
| Capital assets, net | 2,194,205 | 2,102,776 |
| Total noncurrent assets | 2,749,271 | 2,671,531 |
| **TOTAL ASSETS** | $ 2,903,729 | $ 2,779,516 |

*(Continued on next page)*

The accompanying notes are an integral part of these financial statements.

# Massachusetts Port Authority
## Balance Sheets, Continued
## June 30, 2004 and 2003
## (In Thousands)

| LIABILITIES AND NET ASSETS | 2004 | 2003 |
|---|---|---|
| CURRENT LIABILITIES | | |
| Accounts payable and accrued expenses | $ 81,031 | $ 46,898 |
| Compensated absences | 947 | 2,020 |
| Retainage | 3,676 | 3,471 |
| Current maturities of funded debt | 41,905 | 32,745 |
| Accrued interest payable | 35,076 | 28,824 |
| Deferred income | 5,420 | 3,973 |
| Total current liabilities | 168,055 | 117,931 |
| NON-CURRENT LIABILITIES | | |
| Accrued expenses | 21,352 | 16,719 |
| Compensated absences | 18,007 | 13,366 |
| Retainage | 5,939 | 17,819 |
| Funded debt | 1,435,388 | 1,470,690 |
| Deferred income | 13,091 | 9,151 |
| Total noncurrent liabilities | 1,493,777 | 1,527,745 |
| Total liabilities | 1,661,832 | 1,645,676 |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 777,477 | 701,423 |
| Restricted | 402,869 | 396,082 |
| Unrestricted | 61,551 | 36,335 |
| Total net assets | 1,241,897 | 1,133,840 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 2,903,729 | $ 2,779,516 |

The accompanying notes are an integral part of these financial statements.

# Massachusetts Port Authority
## Statements of Revenues, Expenses and Changes in Net Assets
## For the Years Ended June 30, 2004 and 2003
## (In Thousands)

| | 2004 | 2003 |
|---|---|---|
| Operating revenues: | | |
| Fees, tolls and other services | $ 236,287 | $ 214,116 |
| Rentals | 115,225 | 90,431 |
| Concessions | 45,054 | 46,829 |
| Other | 13,539 | 15,117 |
| Operating grants | 4,859 | 7,314 |
| Total operating revenues | 414,964 | 373,807 |
| Operating expenses: | | |
| Operations and maintenance | 201,394 | 181,765 |
| Administration | 43,094 | 41,814 |
| Insurance | 10,234 | 8,685 |
| Pension | 1,834 | - |
| Payments in lieu of taxes | 12,419 | 12,559 |
| Provision for uncollectible accounts | 573 | 1,211 |
| Depreciation and amortization | 111,726 | 102,388 |
| Total operating expenses | 381,274 | 348,422 |
| **Operating income** | 33,690 | 25,385 |
| Nonoperating revenues (expenses): | | |
| Passenger facility charges | 32,845 | 29,090 |
| Investment income | 10,239 | 11,486 |
| Other income | 1,000 | - |
| Other expense | (176) | (3,962) |
| Gain on sale of equipment | 9 | 31 |
| Interest Expense | (59,665) | (45,806) |
| Total nonoperating revenues (expenses) | (15,748) | (9,161) |
| **Income before capital grant revenue** | 17,942 | 16,224 |
| Capital grant revenue | 90,115 | 43,994 |
| **Increase in net assets** | 108,057 | 60,218 |
| **Net assets, beginning of year** | 1,133,840 | 1,073,622 |
| **Net assets, end of year** | $ 1,241,897 | $ 1,133,840 |

The accompanying notes are an integral part of these financial statements.

# Massachusetts Port Authority
## Statements of Cash Flows
## For the Years Ended June 30, 2004 and 2003
## (In Thousands)

| | 2004 | 2003 |
|---|---|---|
| Cash flows from operating activities: | | |
| Cash received from customers and operating grants | $ 412,433 | $ 370,002 |
| Cash payments: | | |
| To vendors for goods and services | (157,906) | (132,019) |
| To employees for services | (89,531) | (90,218) |
| Payments in lieu of taxes | (12,419) | (12,559) |
| **Net cash provided by operating activities** | 152,577 | 135,206 |
| Cash flows from capital and related financing activities: | | |
| Capital Grant Reimbursements | 84,493 | 41,443 |
| Other income/nonoperating | 1,000 | 0 |
| Acquisition and construction of capital assets | (168,526) | (413,325) |
| Proceeds from commercial paper financing | 11,000 | 41,000 |
| Proceeds from sale of equipment | 48 | 49 |
| Proceeds from sale of bonds | - | 411,175 |
| Principal Paid on refunded debt | - | (129,220) |
| Principal paid on funded debt (other than commercial paper) | (34,020) | (36,495) |
| Principal paid on commercial paper | (3,000) | (30,000) |
| Interest paid on funded debt | (63,980) | (67,929) |
| Proceeds from passenger facility charges | 32,080 | 29,311 |
| **Net cash used for capital and related financing activities** | (140,905) | (153,991) |
| Cash flows from investing activities: | | |
| Purchases of investments | (1,582,573) | (2,050,554) |
| Proceeds from sales and maturities of investments | 1,468,307 | 2,172,607 |
| Interest earned on investments | 10,861 | 14,254 |
| **Net cash (used in)/provided by investing activities** | (103,405) | 136,307 |
| Net (decrease)/increase in cash and cash equivalents | (91,733) | 117,522 |
| **Cash and cash equivalents, beginning of year** | 209,493 | 91,971 |
| **Cash and cash equivalents, end of year** | $ 117,760 | $ 209,493 |

*(Continued on next page)*

The accompanying notes are an integral part of these financial statements.

# Massachusetts Port Authority
## Statements of Cash Flows, Continued
## For the Years Ended June 30, 2004 and 2003
## (In Thousands)

| | 2004 | 2003 |
|---|---|---|
| Reconciliation of operating income to net cash provided by operating activities: | | |
| Operating income | $ 33,690 | $ 25,385 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization | 111,726 | 102,388 |
| Provision for uncollectible accounts | 573 | 1,211 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (6,513) | (3,702) |
| Prepayments and other assets | 1,633 | (879) |
| Accounts payable and accrued expenses | 3,512 | 10,613 |
| Accrued compensated absences | 3,570 | (249) |
| Deferred income | 4,386 | 439 |
| **Total adjustments** | 118,887 | 109,821 |
| **Net cash provided by operating activities** | $ 152,577 | $ 135,206 |

The accompanying notes are an integral part of these financial statements.

The Massachusetts Port Authority (the "Authority") is a body politic and corporate and a public instrumentality of The Commonwealth of Massachusetts (the " Commonwealth ") created and existing pursuant to Chapter 465 of the Acts of 1956, as amended, (the "Enabling Act"). The Authority controls, operates and manages Boston-Logan International Airport ("Logan Airport"), Laurence G. Hanscom Field, Maurice J. Tobin Memorial Bridge ("Bridge"), the Port of Boston and other facilities in the Port of Boston. The Authority has no stockholders or equity holders and the Authority's financial statements are not a component of the Commonwealth's financial statements. The provisions of the Enabling Act and the Trust Agreement, dated as of August 1, 1978 as amended (the "1978 Trust Agreement"), between the Authority and U.S. Bank National Association, as Trustee, and the PFC Revenue Bond Trust Agreement dated May 6, 1999, as amended (the "PFC Trust Agreement""), between the Authority and The Bank of New York, as Trustee, govern the disposition of cash revenues to the various funds established under the 1978 Trust Agreement and the PFC Trust Agreement, and restrict the use and investment of such revenues credited to the various funds.

## A. Summary of Significant Accounting Policies

These financial statements have been prepared on the accrual basis of accounting and the economic resources measurement focus in accordance with accounting principles generally accepted in the United States of America.

Commencing on July 1, 1995, the Authority elected to apply all GASB and Financial Accounting Standards Board ("FASB") pronouncements issued before November 30, 1989, under the provisions of GASB Statement No. 20. Accordingly, FASB Statements issued after FASB No. 104 are not incorporated in the Authority's financial statements.

During 2002, the Authority adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments* (GASB 34) as amended. The Authority follows the "business type" activity requirements of GASB 34 which requires that resources be classified for accounting and reporting purposes into the following three net asset categories:

- Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- Restricted:

  *Nonexpendable* – Net assets subject to externally imposed stipulations such that the Authority maintains them permanently. For the years ended June 30, 2004 and 2003, the Authority did not have nonexpendable net assets.

  *Expendable* – Net assets whose use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire by the passage of time. Such assets included the construction funds held pursuant to the 1978 Trust Agreement and the PFC Trust Agreement.

**A. Summary of Significant Accounting Policies, continued**

- Unrestricted: Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Members of the Authority or may otherwise be limited by contractual agreements with outside parties.

**New Accounting Pronouncements**

The GASB has issued Statement No. 40, *Deposit and Investment Risk Disclosures*, effective for the Authority's fiscal year beginning July 1, 2004. Statement No. 40 establishes additional disclosure requirements addressing common risks of investments. The Statement will have no effect on the Authority's net assets or changes in net assets.

In November 2003, the GASB issued Statement No. 42, *Accounting and Reporting for Impairment of Capital Assets and for Insurance Recoveries*, effective for the Authority's fiscal year beginning July 1, 2005. Statement No. 42 requires an evaluation of prominent events or changes in circumstances to determine whether an impairment loss should be recorded and that any insurance recoveries be netted with the impairment loss. The Authority is currently evaluating the effect that Statement No. 42 will have on its financial statements.

In August 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for the Authority's fiscal year beginning July 1, 2007. Statement No. 45 requires accrual-based measurement, recognition and disclosure of other postemployment benefits (OPEB) expense, such as retiree medical and dental costs, over the employees' years of service, along with the related liability, net of any plan assets. For the Authority, this will result in increased expenses and a related liability which will likely be significant. The Authority is currently evaluating the effect that Statement No. 45 will have on its financial statements.

**Assets Whose Use is Limited**

The balance sheets caption, "Assets whose use is limited, " represents restricted or trusteed assets under the 1978 Trust Agreement and the PFC Trust Agreement that are earmarked to fund certain activities of the Authority such as construction of new facilities, debt service and debt service reserves.

**Cash and Cash Equivalents**

The Authority considers all highly liquid investments (including "Assets whose use is limited") with an original maturity of 30 days or less when purchased to be cash equivalents.

**Investments**

Investments with an original maturity greater than one year are recorded at their fair value with all investment income, including changes in the fair value of investments, reported as investment income in the financial statements. Investments with an original maturity of less than one year are carried at amortized cost which approximates fair value. Investments consist of U.S. Government and agency obligations, repurchase agreements collateralized by U.S. Government or agency obligations, shares in the Massachusetts Municipal Depository Trust ("MMDT") and other investments permitted under the 1978 Trust Agreement or the PFC Trust Agreement.

**Self-Insurance**

The Authority, as mandated by the 1978 Trust Agreement, maintains a Self-Insurance Account within the Operating Fund. The funds on deposit in the Self-Insurance Account are intended to

**A. Summary of Significant Accounting Policies, continued**

pay claims that are below insurance policies' deductible limits, and to be available to fund certain claims that may not be insurable on reasonable terms, if any. Investments used to fund self-insurance claims are included within "Assets whose use is limited" in the accompanying balance sheets.

**Capital Assets**
Facilities are carried at historical cost and include the expenditure of capital grants, the cost of significant renewals and betterments and related legal costs. Capital grants received are recorded as capital grant revenue. Expenditures for repairs and operating maintenance are charged to expense as incurred.

**Depreciation**
Depreciation is calculated on the straight-line method based on the estimated useful lives of the applicable assets beginning in the fiscal year of acquisition or upon completion of construction. Depreciation is computed on facilities, which are recorded in the accounts of the Authority, including those financed by grants.

**Interest Capitalization**
The Authority capitalizes certain interest associated with the cost of tax-exempt borrowings, less any interest earned on temporary investment of the proceeds of those borrowings during the period of construction. Interest expense of $10,567,000 and $17,705,000, reduced by interest income of $1,009,000 and $2,270,000, resulted in interest of $9,558,000 and $15,435,000 for the years ended June 30, 2004 and 2003, respectively, being capitalized as a part of the cost of Construction In Progress.

**Accounting for Compensated Absences**
The Authority accrues for vacation and sick pay when it is earned. The liability for vested vacation and sick pay is reflected in the accompanying balance sheets under the captions "compensated absences."

**Deferred Income**
Deferred income consists primarily of amounts received from the Massachusetts Highway Department ("MHD") as compensation for temporary and permanent easements in certain properties at Logan Airport which provide MHD with sufficient rights in land owned by the Authority to permit MHD to complete the Ted Williams Tunnel project, as currently designed. Income received from these easements will be recognized as follows: for temporary easements, over the shorter of the asset's useful life or the original term; and for permanent easements, over the estimated useful life of the assets constructed, which is 25 years.

**Arbitrage - Rebate Liability**
The U.S. Treasury has issued regulations on calculating the rebate due to the U.S. Government on arbitrage profits and determining compliance with the arbitrage rebate provisions of the Internal Revenue Code of 1986, as amended. Arbitrage profits arise when the Authority temporarily invests the proceeds of tax-exempt debt in securities with higher yields than the yield on such debt. The Authority records a liability for arbitrage profits, if any, when the likelihood of payment becomes probable. The Authority recorded an arbitrage rebate liability of $0.1 million and $2.7 million for years ended June 30, 2004 and June 30, 2003, respectively, for arbitrage

**A. Summary of Significant Accounting Policies, continued**

earned that is likely to be rebated to the U.S. government related to the Authority's PFC Revenue Bonds Series-1999 A&B.

**Passenger Facility Charges**

Revenues derived from the collection of passenger facility charges ("PFCs") are recognized on the accrual basis and reported as nonoperating revenue by the Authority.

**Net Assets**

Net assets represent the residual interest in the Authority's assets after liabilities are deducted and consists of three components: Invested in capital assets, net of related debt; restricted; and unrestricted. Net assets invested in capital assets, net of related debt, include capital assets, restricted and unrestricted, net of accumulated depreciation, reduced by outstanding debt net of applicable debt service reserves. Net assets are reported as restricted when constraints are imposed by third parties or enabling legislation. The Authority's restricted assets are expendable. All other net assets are unrestricted.

**Intangible Assets**

Intangible assets consist of the rights to use certain parking spaces acquired by the Authority as part of the ParkEx Acquisition. During fiscal 2001, the Authority purchased the ownership interest of two partnerships that owned and operated a park and fly business ("ParkEx") located near the Airport and held the contractual rights to park 1,377 automobiles in East Boston (the "Park Ex Parking Spaces"). The total amount allocated to the ParkEx Parking Spaces is approximately $42 million and is presented as Intangible Assets, net of amortization, in the accompanying financial statements. These intangible assets are amortized on a straight-line basis over 30 years.

**Joint Venture**

The Authority has a 33% participating interest in a joint venture (known as the Anderson Regional Transportation Center). In accordance with the joint venture agreement, the Authority records as income or loss its proportionate share of the net earnings or losses of the joint venture with a corresponding increase or decrease in the carrying value of the investment. The investment in the joint venture is reduced as cash distributions are received and is increased as cash contributions are made. (See Note N.)

**Financial Statement Reclassification**

Certain accounts in the June 30, 2003 financial statements have been reclassified to conform with the June 30, 2004 presentation.

**B. Reconciliation of Revenues and Operating Expenses as Determined by Accounting Practices Prescribed by the 1978 Trust Agreement and the PFC Trust Agreement to the Financial Statements**

The provisions of the Enabling Act, the 1978 Trust Agreement and the PFC Trust Agreement prescribe certain accounting practices to be followed in maintaining the accounts and records of the Authority.

Under the 1978 Trust Agreement, cash revenues of the Authority are deposited daily into the Revenue Fund established pursuant to the 1978 Trust Agreement. Once each month, all such revenues are transferred to the Operating Fund established pursuant to the 1978 Trust Agreement. After providing for operating expenses, including pension expense and transfers to the Self-Insurance Account, cash revenues are then transferred to the Interest and Sinking Fund, which are applied to debt service on any outstanding revenue bonds, the Maintenance Reserve Fund, the Payment In Lieu of Taxes Fund and, if applicable, the Capital Budget Fund and finally the Improvement and Extension Fund.

Cash and investments held in the Improvement and Extension Fund, to the extent designated by the Authority, are deposited in the Capital Budget Account within such fund. PFCs are deposited in the PFC Pledged Revenue Fund established pursuant to the PFC Trust Agreement and applied monthly to pay debt service on PFC Revenue Bonds as required in the PFC Trust Agreement. Any remaining funds are transferred to the PFC Capital Fund. In order to comply with federal tax requirements, the Authority also establishes a separate rebate account for each series of its bonds. In fiscal years 2004 and 2003, the only rebate accounts that had been funded were the Series 1999-A and 1999-B PFC Rebate Accounts.

## B. Reconciliation of Revenues and Operating Expenses as Determined by Accounting Practices Prescribed by the 1978 Trust Agreement to the Financial Statement, continued

Presented below are the 2004 and summary 2003 revenues and operating expenses as determined in accordance with the 1978 Trust Agreement, and a reconciliation to net assets as presented in the accompanying statements of revenues, expenses and changes in net assets under accounting principles generally accepted in the United States of America ("GAAP").

| | | Airport | Port Properties | | | 2004 | 2003 |
|---|---|---|---|---|---|---|---|
| **(In thousands)** | **Bridge** | **Properties** | **Maritime** | **Commercial R.E** | **Investments** | **Total** | **Total** |
| Revenues, net: | | | | | | | |
| Pledged revenues | $ 24,039 | $ 336,394 | $ 38,699 | $ 10,973 | $ 6,568 | $ 416,673 | $ 373,243 |
| Operating Grant | 34 | 4,662 | 142 | 21 | - | 4,859 | 435 |
| Total | 24,073 | 341,056 | 38,841 | 10,994 | 6,568 | 421,532 | 373,678 |
| Operating expenses: | | | | | | | |
| Operations and maintenance | 6,478 | 142,959 | 37,447 | 2,418 | - | 189,302 | 172,963 |
| Administration (5) | 2,212 | 34,068 | 5,774 | 2,039 | - | 44,093 | 41,814 |
| Insurance | 822 | 6,732 | 799 | 272 | - | 8,625 | 9,042 |
| Pension | 104 | 1,475 | 221 | 34 | - | 1,834 | - |
| Total | 9,616 | 185,234 | 44,241 | 4,763 | - | 243,854 | 223,819 |
| Excess (deficit) of revenues over operating expenses as prescribed by the 1978 Trust Agreement | 14,457 | 155,822 | (5,400) | 6,231 | 6,568 | 177,678 | 149,859 |
| Add: | | | | | | | |
| Self Insurance Interest Income (3) | - | - | - | - | 1,762 | 1,762 | 1,365 |
| Passenger Facility Charge (PFC) (3) | - | 32,846 | - | - | 607 | 33,453 | 29,861 |
| Earnings associated with PFC bond funds (3) | - | - | - | - | 1,302 | 1,302 | 1,388 |
| Capital grant revenue (3) | - | 90,115 | - | - | - | 90,115 | 43,994 |
| Gain on sale of equipment (2) (4) | 2 | 3 | 4 | - | - | 9 | 31 |
| Administration Expenses (1) (5) (6) | 43 | 815 | 112 | 30 | - | 1,000 | - |
| Nonoperating Other Revenue (3) | - | 1,000 | - | - | - | 1,000 | - |
| Less: | | | | | | | |
| PILOT (4) | (727) | (10,308) | (974) | (410) | - | (12,419) | (12,559) |
| Self Insurance Cost (1) | (7) | (1,527) | (68) | (8) | - | (1,610) | 357 |
| Interest Expense (4) | (525) | (57,347) | (1,360) | (433) | - | (59,665) | (45,806) |
| Depreciation and Amortization (2) (4) | (5,313) | (91,293) | (10,784) | (4,336) | - | (111,726) | (102,388) |
| Operating Expenses (4) | - | (12,666) | - | - | - | (12,666) | (1,923) |
| Nonoperating Other Expenses (4) | - | (176) | - | - | - | (176) | (3,962) |
| Increase in net assets | $ 7,930 | $ 107,284 | $ (18,470) | $ 1,074 | $ 10,239 | $ 108,057 | $ 60,218 |

**B. Reconciliation of Revenues and Operating Expenses as Determined by Accounting Practices Prescribed by the 1978 Trust Agreement to the Financial Statement, continued**

(1) Expensed under 1978 Trust Agreement, not an expense under GAAP.
(2) Equipment is depreciated under GAAP but not under 1978 Trust Agreement.
(3) Not revenue under 1978 Trust Agreement, revenue under GAAP.
(4) Not operating income/(expense) under 1978 Trust Agreement, income/(expense) under GAAP.
(5) The Authority allocates total administrative expenses based upon the proportionate amount of revenues and direct expenses by facility.
(6) Reserve for post-retirement health benefits.

### C. Cash, Cash Equivalents and Investments

The following summarizes the Authority's cash, cash equivalents and investments at June 30, 2004 by the various funds and accounts established under the 1978 Trust Agreement and the PFC Trust Agreement. Summary 2003 information is also presented:

| (In thousands) | Current: Cash and cash equivalents | Current: Investments | Non-current: Assets whose use is limited: Cash, cash equivalents and investments | 2004 Total | 2003 Total |
|---|---|---|---|---|---|
| User defined for specific purposes: | | | | | |
| Operating/Revenue Fund | $ 35,088 | $ - | $ - | $ 35,088 | $ 37,254 |
| Self-Insurance Account | | | 41,429 | 41,429 | 34,302 |
| Maintenance Reserve Fund | - | - | 29,672 | 29,672 | 38,950 |
| Payments in Lieu of Taxes Fund | - | - | 5,303 | 5,303 | 5,854 |
| Capital Budget Account | - | - | 106,908 | 106,908 | 65,940 |
| Improvement and Extension Fund | 8,048 | 63,383 | - | 71,431 | 36,515 |
| 1997-A Debt Service | - | - | 7,362 | 7,362 | 7,224 |
| 1997-A Debt Service Reserve | - | - | 10,836 | 10,836 | 10,851 |
| 1997-B Debt Service | - | - | 1,964 | 1,964 | 1,936 |
| 1997-B Debt Service Reserve | - | - | 2,997 | 2,997 | 2,994 |
| 1998-A Debt Service | - | - | 2,893 | 2,893 | 2,883 |
| 1998-A Debt Service Reserve | - | - | 9,650 | 9,650 | 9,658 |
| 1998-B Debt Service | - | - | 2,532 | 2,532 | 2,551 |
| 1998-B Debt Service Reserve | - | - | 4,305 | 4,305 | 4,345 |
| 1998-C Debt Service | - | - | 14,591 | 14,591 | 14,146 |
| 1998-C Debt Service Reserve | - | - | 12,434 | 12,434 | 12,449 |
| 1998-D Debt Service | - | - | 2,999 | 2,999 | 2,955 |
| 1998-D Debt Service Reserve | - | - | 4,538 | 4,538 | 4,536 |
| 1998-E Debt Service | - | - | 3,787 | 3,787 | 3,734 |
| 1998-E Debt Service Reserve | - | - | 5,731 | 5,731 | 5,744 |
| 1999-C Debt Service | - | - | 5,443 | 5,443 | 5,362 |
| 1999-C Debt Service Reserve | - | - | 14,137 | 14,137 | 14,178 |
| 1999-D Debt Service | - | - | 3,407 | 3,407 | 3,356 |
| 1999-D Project Account | - | - | - | - | 2 |
| 2003-A Debt Service Reserve | - | - | 14,038 | 14,038 | 14,032 |
| 2003-A Project | - | - | 43,471 | 43,471 | 56,633 |
| 2003-A Debt Service | - | - | 5,292 | 5,292 | - |
| 2003-B Debt Service | - | - | 124 | 124 | 156 |
| 2003-B Project | - | - | 17,094 | 17,094 | 41,856 |
| 2003-B Debt Service Reserve | - | - | 5,572 | 5,572 | 5,571 |
| 2003-C Debt Service Reserve | - | - | 9,207 | 9,207 | 9,218 |
| 2003-C Debt Service | - | - | 7,350 | 7,350 | 7 |
| 1997 Note Project Account | - | - | - | - | 3 |
| 1997 Note Repayment | - | - | - | - | 3,000 |
| 2003-B CP Project Account | - | - | 3,792 | 3,792 | 17,624 |
| 2003-A CP Project Account | - | - | 10,566 | 10,566 | 19,006 |
| Park Ex Principal 2000-A | - | - | 8,026 | 8,026 | 7,554 |
| Park Ex Interest 2000-A | - | - | 1,291 | 1,291 | 1,291 |
| Park Ex Principal 2001-A | - | - | 6,824 | 6,824 | 6,423 |
| Park Ex Interest 2001-A | - | - | 1,097 | 1,097 | 1,097 |
| PFC Pledged Revenue | - | - | 3,077 | 3,077 | 2,692 |
| PFC Capital | - | - | 13,443 | 13,443 | 11,671 |
| PFC Collection | - | - | 634 | 634 | 484 |
| 1999-A&B PFC Funded Interest | - | - | 5,168 | 5,168 | 4,761 |
| 1999-A&B Non-PFC Fund Interest | - | - | 694 | 694 | 1,309 |
| 1999-A PFC Funded Debt Service Reserve | - | - | 25,568 | 25,568 | 25,578 |
| 1999-B PFC Project | - | - | - | - | 3,581 |
| 1999-B PFC Principal | - | - | 10,273 | 10,273 | 9,638 |
| 1999-B Non PFC Principal | - | - | - | - | 214 |
| 1999-A Rebate – PFC | - | - | 402 | 402 | 398 |
| 1999-B Rebate - PFC | - | - | 2,794 | 2,794 | 798 |
| | $ 43,136 | $ 63,383 | $ 488,715 | $ 595,234 | $ 572,314 |

**C. Cash, Cash Equivalents and Investments, continued**

The carrying amount of the Authority's cash deposits was $5,733,000 and $6,677,000 at June 30, 2004 and 2003, respectively. The bank balance was $11,676,000 and $14,630,000 at June 30, 2004 and 2003, respectively. The nature of the reconciling items between the book and bank balance consisted primarily of outstanding checks which had not cleared the bank at year-end. The following summarizes the Authority's cash and cash equivalents and investments by type held at June 30, 2004. Summary 2003 information is also presented.

| (In thousands) | Carrying Amount | Fair Value as of June 30, 2004 |
|---|---|---|
| Forward delivery agreements | $ 86,668 | $ 86,668 |
| Guaranteed Investment Contracts | 14,850 | 14,850 |
| U.S. Government Agencies and Instrumentalities: | | |
| Treasury Note / Bill | 21,588 | 21,500 |
| Federal Farm Credit (FFC) | 18,265 | 18,177 |
| Federal National Mortgage Association (FNMA) | 76,429 | 75,920 |
| Federal Home Loan Bank (FHLB) | 135,515 | 134,738 |
| Federal Home Loan Mortgage Corp. (FHLMC) | 104,396 | 104,056 |
| Total U.S. Government Agencies and Instrumentalities | 356,193 | 354,391 |
| Mutual fund (MMDT) and others | 122,395 | 122,395 |
| Municipal Savings (Citizens Bank) | 4,376 | 4,376 |
| Total Mutual Fund and Others | 126,771 | 126,771 |
| Total Cash Equivalents and Investments | 584,482 | 582,680 |
| Cash deposit | 5,733 | 5,733 |
| Certificates of deposit | 5,019 | 5,019 |
| Total at June 30, 2004 | $ 595,234 | $ 593,432 |
| Total at June 30, 2003 | $ 572,314 | $ 574,535 |

**C. Cash, Cash Equivalents and Investments, continued**

The Authority is authorized by the 1978 Trust Agreement and the PFC Trust Agreement to invest in obligations of the U.S. Treasury, U.S. Government agencies and instrumentalities, in bonds or notes of public agencies or municipalities, in the MMDT, in bank time deposits and in forward delivery agreements and certain other types of permitted investments specified therein. All investments are held on behalf of the Authority by the Trustees or custodians for the Authority or the Trustees in the Authority's name.

The repurchase agreements are collateralized by obligations of the U.S. Government or agencies of the U.S. Government. The 1978 Trust Agreement and the PFC Trust Agreement require that securities underlying repurchase agreements at the time of purchase must have a fair value at least equal to the cost of the agreement plus accrued interest. MMDT is a governmental investment pool with a diversified portfolio of money market instruments.

The forward delivery agreements are each in the form of a guaranteed investment contract which provides for, among other things, the sequential delivery of securities to be sold to the applicable Trustee periodically at a discount from maturity value such that the aggregate discount equals the interest rate previously agreed between the Authority and the provider of the guaranteed investment contract.

The Authority's investments are categorized below to give an indication of the level of risk with Category 1 being the lowest level of risk to Category 3 being the highest level of risk.

Category 1: Includes investments that are insured or registered, or securities held by the Authority or its agent in the Authority's name. Category 2: Includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the name of the Authority. Category 3: Includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the name of the Authority. Investments in the Massachusetts Municipal Depository Trust (MMDT) are not categorized. MMDT is a trust that is managed for the Treasurer's Office of The Commonwealth of Massachusetts and municipalities within Massachusetts to maintain a stable $1.00 unit price.

The table below presents the Authority's investment risk classifications in accordance with GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements* (GASB 3).

## C. Cash, Cash Equivalents and Investments, continued

June 30, 2004
(In thousands)

| | Category 1 | Category 2 | Category 3 | Carrying amount | Fair value |
|---|---|---|---|---|---|
| **Investments:** | | | | | |
| U.S. Government agencies and instrumentalities | $ 356,193 | | | $ 356,193 | $ 354,391 |
| Sub Total | 356,193 | | | 356,193 | 354,391 |
| **Investments not categorized:** | | | | | |
| Forward delivery agreements | | | | 86,668 | 86,668 |
| Guaranteed Investment Contracts | | | | 14,850 | 14,850 |
| Mutual Fund and other (MMDT) | | | | 126,771 | 126,771 |
| Sub Total | | | | 228,289 | 228,289 |
| **Total at June 30, 2004** | | | | $ 584,482 | $ 582,680 |

June 30, 2003
(In thousands)

| | Category 1 | Category 2 | Category 3 | Carrying amount | Fair value |
|---|---|---|---|---|---|
| **Investments:** | | | | | |
| U.S. Government agencies and instrumentalities | 262,230 | | | 262,230 | 264,451 |
| Sub Total | 262,230 | | | 262,230 | 264,451 |
| **Investments not categorized:** | | | | | |
| Forward delivery agreements | | | | 69,059 | 69,059 |
| Guaranteed Investment Contracts | | | | 13,977 | 13,977 |
| Mutual Fund and other (MMDT) | | | | 215,349 | 215,349 |
| Sub Total | | | | 298,385 | 298,385 |
| **Total at June 30, 2003** | | | | $ 560,615 | $ 562,836 |

The Authority's cash deposits are categorized below to give an indication of the level of risk with Category 1 being the lowest level of risk to Category 3 being the highest level of risk.

In accordance with GASB Statement No. 3, the Authority classifies its deposits as to the credit risk by the following three categories: Category 1 includes insured or collateralized cash with securities held by the Authority or its agent in the Authority’s name; Category 2 includes collateralized cash with securities held by the pledging financial institutions’ trust department or agent in the Authority’s name; and Category 3 includes uncollateralized cash, including any bank balance that is collaterized with securities held by the pledging institution, or by its trust

**C. Cash, Cash Equivalents and Investments, continued**

department or agent, but not in the Authority's name. The table below presents the Authority's deposit risk classifications in accordance with GASB Statement No. 3:

**June 30, 2004**
**(In thousands)**

| | Category 1 | Category 2 | Category 3 | Carrying amount | Fair value |
|---|---|---|---|---|---|
| **Cash Deposits:** | | | | | |
| Cash on Hand | | $ - | $ 5,733 | $ 5,733 | $ 5,733 |
| Certificates of Deposit | | 5,019 | | 5,019 | 5,019 |
| Sub Total | | 5,019 | 5,733 | 10,752 | 10,752 |
| **Total at June 30, 2004** | | | | $ 10,752 | $ 10,752 |

**June 30, 2003**
**(In thousands)**

| | Category 1 | Category 2 | Category 3 | Carrying amount | Fair value |
|---|---|---|---|---|---|
| **Cash Deposits:** | | | | | |
| Cash on Hand | | $ - | $ 6,677 | $ 6,677 | $ 6,677 |
| Certificates of Deposit | | 5,022 | | 5,022 | 5,022 |
| Sub Total | | 5,022 | 6,677 | 11,699 | 11,699 |
| **Total at June 30, 2003** | | | | $ 11,699 | $ 11,699 |

## D. Capital Assets

Net capital assets at June 30, 2004 and 2003 are comprised of:

| (In thousands) | 2004 | 2003 |
|---|---|---|
| Facilities completed by operation: | | |
| Airport | $ 2,526,262 | $ 2,369,355 |
| Bridge | 206,762 | 140,057 |
| Port | 448,054 | 426,149 |
| Capital assets | $ 3,181,078 | $ 2,935,561 |

A summary of changes in investments in facilities and in construction in progress for the year ending June 30, 2004 is as follows:

| (In thousands) | Beginning balance July 1, 2003 | Additions and Transfers | Deletions and Transfers | Ending balance June 30, 2004 |
|---|---|---|---|---|
| Construction in progress | $ 234,849 | $ 210,394 | $ (255,850) | $ 189,393 |
| Land & land improvements | 142,157 | 5,344 | - | 147,501 |
| Bridge and bridge improvements | 130,125 | 9,610 | - | 139,735 |
| Buildings | 1,785,605 | 87,799 | - | 1,873,404 |
| Runway & other paving | 400,626 | 50,644 | - | 451,270 |
| Roadway | 364,080 | 74,368 | - | 438,448 |
| Machinery & Equipment | 112,968 | 19,049 | (1,297) | 130,720 |
| | 2,935,561 | 246,814 | (1,297) | 3,181,078 |
| Less: accumulated depreciation | (1,067,634) | (109,377) | 745 | (1,176,266) |
| Capital Assets, net | $ 2,102,776 | $ 347,831 | $ (256,402) | $ 2,194,205 |

Total depreciation for fiscal year 2004 was $111.7 million, an increase of $9 million from fiscal year 2003, which was $102.4 million.

**D. Capital Assets, continued**

Estimated useful lives used in the calculation of depreciation are as follows:

| | |
|---|---|
| Bridge | 100 years |
| Bridge improvements | 10 to 25 years |
| Buildings | 25 years |
| Runways and other airfield paving | 25 years |
| Roadway | 25 years |
| Machinery and equipment | 5 to 10 years |

**E. Passenger Facility Charge**

In 1993, the Authority received initial approval from the Federal Aviation Administration ("FAA") to impose a $3.00 passenger facility charge ("PFC") at Logan Airport. PFCs collected by the Authority can be used for capital projects determined by the FAA to be eligible in accordance with the Aviation Safety and Capacity Expansion Act of 1990. In February 1998, the Authority received approval from the FAA to increase its collections up to $927.4 million with a projected expiration date of October 1, 2017. Through June 30, 2004 the Authority had collected $369.5 million in PFCs. The Authority has also received approval from the FAA to use or expend a total of $927.4 million for preliminary design projects as well as for the final design, construction and financing costs associated with the eligible portions of residential soundproofing, Terminal E Modernization, circulating roadways, the elevated walkways, and the International Gateway Project.

On May 6, 1999, the Authority entered into the PFC Trust Agreement with The Bank of New York, as trustee, simultaneously removing PFC revenues from the pledge of the 1978 Trust Agreement. All PFCs collected by the Authority are currently pledged under the PFC Trust Agreement. On June 16, 1999, the Authority issued $249,355,000 PFC Revenue Bonds, Series 1999-A and 1999-B pursuant to the PFC Trust Agreement of which $221,705,000 was outstanding as of June 30, 2004 and $231,290,000 as of June 30, 2003.

The amount of assets derived from PFC revenue and the proceeds of bonds issued pursuant to the PFC Trust Agreement invested in Authority facilities, operations and reserves that are restricted for future PFC project expenses is as follows:

| **(In thousands)** | **June 30, 2004** | **June 30, 2003** |
|---|---|---|
| Total assets, PFCs | $ 552,696 | $ 558,424 |
| PFC funds and PFC Bond funds expended, net | (485,707) | (492,953) |
| Other PFC related assets | (4,934) | (4,349) |
| PFCs collected to date and PFC Bond proceeds restricted but not yet expended | $ 62,055 | $ 61,122 |

## F. Net Assets

The table below is a reconciliation of total net assets per the Authority's internal financial statements for the years ending June 30, 2004 and 2003 to the net asset classifications for the years ending June 30, 2004 and 2003.

**(in thousands)**

| Net assets | 2004 | 2003 |
|---|---|---|
| Net assets, beginning of year | $ 1,133,840 | $ 1,073,622 |
| Income before capital grant revenue | 17,942 | 16,224 |
| Capital grant revenue | 90,115 | 43,994 |
| Net assets, end of year | $ 1,241,897 | $ 1,133,840 |
| Invested in capital assets, net of related debt | 777,477 | 701,423 |
| Restricted | 402,869 | 396,082 |
| Unrestricted | 61,551 | 36,335 |
| Total net assets | $ 1,241,897 | $ 1,133,840 |

## G. Funded Debt

The following is a summary of the Authority's funded debt activity for the years ended June 30, 2004 and 2003:

**(in thousands)**

| Funded debt | 2004 | 2003 |
|---|---|---|
| Funded debt, beginning of year | $ 1,491,625 | $ 1,258,145 |
| New debt issued (par) (other than commercial paper) | - | 388,195 |
| New commercial paper issued | 11,000 | 41,000 |
| Principal paid on refunded debt | - | (129,220) |
| Principal paid on funded debt (other than commercial paper) | (34,020) | (36,495) |
| Principal paid on commercial paper | (3,000) | (30,000) |
| Funded debt, end of year | $ 1,465,605 | $ 1,491,625 |

### G. Funded Debt, continued

Funded debt at June 30, 2004 and 2003 is comprised of the following:

| (in thousands) | Weighted average interest rate at June 30, 2004 | 2004 | 2003 |
|---|---|---|---|
| Revenue Refunding Bonds: | | | |
| Series 1997 – C | 4.88% | 13,505 | 14,185 |
| Series 1998 – A, B & C | 5.75% | 199,150 | 211,920 |
| Series 2003 – B* | 1.56% | 30,359 | 30,850 |
| Series 2003 – C | 4.52% | 86,360 | 86,360 |
| Revenue Bonds: | | | |
| Series 1997 – A | 5.24% | 55,955 | 58,610 |
| Series 1997 – B | 5.13% | 17,260 | 18,105 |
| Series 1998 – D | 4.67% | 18,420 | 19,745 |
| Series 1998 – E | 4.79% | 21,140 | 22,785 |
| Series 1999 – C | 5.56% | 50,505 | 52,515 |
| Series 1999 – D | 5.57% | 31,085 | 32,315 |
| Series 2003 – A | 4.36% | 129,340 | 129,340 |
| Series 2003 – B* | 1.56% | 48,391 | 49,175 |
| Term Revenue Bonds | 5.24% | 418,430 | 418,430 |
| Subordinated Revenue Bonds | | | |
| Series 2000 – A, B & C | 6.45% | 40,000 | 40,000 |
| Series 2001 – A, B & C | 6.45% | 34,000 | 34,000 |
| PFC Revenue Bonds: | | | |
| Series 1999 – A | 5.13% | 67,665 | 67,665 |
| Series 1999 – B | 5.25% | 154,040 | 163,625 |
| Commercial paper | | | |
| Series 2003 – A** | 1.079% | 20,000 | 22,000 |
| Series 2003 – B*** | 1.059% | 30,000 | 20,000 |
| Total funded debt | | 1,465,605 | 1,491,625 |
| Plus: net issue premium | | 22,167 | 22,958 |
| Less: unamortized loss on refunding | | (10,479) | (11,148) |
| Less: net issue discount | | 0 | 0 |
| Total | | $ 1,477,293 | $ 1,503,435 |
| Less: current maturities of funded debt | | (41,905) | (32,745) |
| Non current maturities of funded debt | | $ 1,435,388 | $ 1,470,690 |

* The interest on the Series 2003-B Bonds including fees, is projected at 1.56%, per annum, which was the debt service (interest and fees) as of the auction held on June 8, 2004.

** The weighted average interest on June 30, 2004, for the commercial paper series 2003-A was 1.079%.

*** The weighted average interest on June 30, 2004, for the commercial paper series 2003-B was 1.059%.

**G. Funded Debt, continued**

Scheduled principal payments on funded debt are due annually on July 1 as follows:

| **Fiscal Year (in thousands)** | |
|---|---|
| 2005 | 41,905 |
| 2006 | 45,635 |
| 2007 | 50,075 |
| 2008 | 56,800 |
| 2009 | 56,305 |
| Thereafter | 1,214,885 |
| Total | $ 1,465,605 |

The following is a summary of the maturities and sinking fund requirements not including any unamortized discount or premium (in thousands):

| **Due Fiscal Year** | **Principal** | **Interest*** | **Total Debt Service** |
|---|---|---|---|
| 2005 | 41,905 | 72,381 | 114,286 |
| 2006 | 45,635 | 69,172 | 114,807 |
| 2007 | 50,075 | 64,033 | 114,108 |
| 2008 | 56,800 | 64,609 | 121,409 |
| 2009 | 56,305 | 61,885 | 118,190 |
| 2010 - 2014 | 302,295 | 265,513 | 567,808 |
| 2015 - 2019 | 288,690 | 188,790 | 477,480 |
| 2020 - 2024 | 120,365 | 124,872 | 245,237 |
| 2025 - 2029 | 302,695 | 75,004 | 377,699 |
| Thereafter | 200,840 | 22,742 | 223,582 |
| Total | $ 1,465,605 | $ 1,009,001 | $ 2,474,606 |

*The interest on the Series 2003-B Bonds including fees, is projected at 1.56% per annum, which was the debt service (interest and fees) as of the auction held on June 8, 2004.

On May 29, 2003, the Authority issued $388,195,000 of its Revenue and Revenue Refunding Bonds, Series 2003-A, B and C (the "2003 Bonds") with an original issue premium of $22,980,000. The 2003-A Bonds and the 2003-B Bonds were issued, in part, to finance a portion of the Authority's capital program. The 2003-B Bonds were also issued, in part, to currently refund all of the Authority's Revenue Bonds, Series 1992-A, and the 2003-C Bonds were issued to currently refund all of the Authority's Revenue Bonds, Series 1992-B and all of the Authority's

**G. Funded Debt, continued**

Revenue Refunding Bonds, Series 1993-A and B. The 2003-A and 2003-C Bonds are fixed rate Revenue Bonds. The 2003-B Bonds are auction rate securities.

On December 29, 2000 and January 2, 2001, as a component of the ParkEx Acquisition (see Note A: Intangible Assets), the Authority issued its Subordinated Revenue Bonds, Series 2000-A, 2000-B and 2000-C, and Series 2001-A, 2001-B and 2001-C, respectively, in the aggregate principal amount of $74 million, bearing interest at 6.45% per annum (collectively, the "Subordinated Bonds"). The Subordinated Bonds are payable solely from funds on deposit in the Improvement and Extension Fund and in a separate account not subject to the pledge of the 1978 Trust Agreement or the PFC Trust Agreement (the "Subordinated Bonds Principal Account").

The payment of debt service on the Subordinated Bonds is subordinate to all of the Authority's outstanding Revenue Bonds. The Authority has invested $12 million on deposit in the Subordinated Bonds Principal Account in two investment contracts which, at their stated maturities, will provide for the $74 million principal of the Subordinated Bonds at their respective maturities.

On March 20, 2003, the Authority renewed its commercial paper program in an aggregate principal amount not to exceed $100 million, and entered into a three year Letter of Credit Agreement with WestLB AG, acting through its New York Branch, to support the commercial paper program. The sum of the non-AMT (Alternative Minimum Tax) program (called the 2003-A Series) and the AMT program (called the 2003-B Series) will not exceed the lesser of 10% of the outstanding principal on the Authority's outstanding debt or $100 million. As of June 30, 2004, $20 million of the 2003-A Series and $30 million of the 2003-B Series were outstanding. As of June 30, 2003, $22 million in commercial paper was outstanding of the 2003-A Series and $20 million of the 2003-B Series was outstanding.

In prior years, the Authority defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust with the Trustee for such bonds to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. At June 30, 2004, the balances outstanding for the following bonds which are considered defeased include:

| | (in thousands) |
|---|---|
| 1964 Series | $ 3,005 |
| 1969 Series | 24,240 |
| 1971 Series | 45,155 |
| 1973 Series | 54,645 |
| 1982 Series | 39,640 |
| Total defeased bonds | $ 166,685 |

## G. Funded Debt, continued

To provide for the construction and improvement of various facilities at Logan Airport, including a hotel and conference center, a fuel storage and distribution system, terminal redevelopment and improvement, and maintenance facilities, the Authority has issued and has outstanding nine series of special facilities revenue bonds. The Authority's special facilities revenue bonds are all special limited obligations of the Authority and are payable solely from and secured solely by certain revenues to be received by a separate trustee, pursuant to agreements between the Authority and the tenants of the facilities constructed with the proceeds of such bonds and, in certain cases, guaranty agreements from the lessee/obligor. As a result of United filing for bankruptcy protection in December 2002, the trustee for the Authority's $80,500,000 Special Facilities Revenue Bonds (United Air Lines, Inc. Project), Series 1999-A (the "United Bonds") has issued notice that the United Bonds are in default. The Authority has not been asked to make any payments under this issue.

The Authority's special facilities revenue bonds do not constitute a debt or pledge of the faith and credit of the Authority or the Commonwealth and, accordingly, have not been reflected in the accompanying financial statements.

At June 30, 2004, the aggregate principal amount of the Authority's special facilities revenue bonds outstanding was approximately $773.7 million.

## H. Interest Rate Swap

On July 1, 2002, the Authority entered into a pay-variable, receive-fixed interest rate swap with a term of ten years to refund synthetically $56 million of the Authority's Revenue Bonds, Series 1999-D and $44 million of its Revenue Bonds, Series 1998-E. The objective of the swap is to lower the interest rates paid on the 1999-D Bonds and 1998-E Bonds. The notional value of the swap is $100 million. Under the terms of the swap, the Authority pays a variable rate equivalent to The Bond Market Association ("BMA") Municipal Swap Index, which was 1.08 percent at June 30, 2004, and receives fixed-rate payments at 4.05 percent. As of June 30, 2004, the swap created synthetic variable-rate bonds as follows:

| | Terms | Rates | Rates |
|---|---|---|---|
| Interest rate swap: | | | |
| Variable payment to counterparty | BMA | 1.08% | 1.08% |
| Fixed payment from counterparty | Fixed | (4.05%) | (4.05%) |
| Net interest rate swap payments | | (2.97%) | (2.97%) |
| Fixed-rate bond coupon payments 1998-E | Fixed | 4.98% | |
| Fixed-rate bond coupon payments 1999-D | Fixed | | 5.79% |
| Synthetic variable interest on the bonds | | 2.01% | 2.82% |

**H. Interest Rate Swap, continued**

***Fair value.*** As of June 30, 2004 and June 30, 2003, the swap had a positive fair value of $3,678,391 and $8,568,067, respectively. The fair value of the swap was calculated using the par-value method: the fixed rate on the swap was compared with the current fixed rates that could be achieved in the marketplace should the swap be unwound. The fixed-rate component was valued by discounting the fixed-rate cash flows using the current yield to maturity of a comparable bond. The variable-rate component was assumed to be at par value because the interest rate resets to the market rate at every reset date. The fair_value was then calculated by subtracting the established market value of the fixed component from the established market value of the variable component (the par value of the bond).

***Credit risk.*** The swap's fair value represented the Authority's credit exposure to the counterparty as of June 30, 2004 and as of June 30, 2003. Should the counterparty to this transaction fail to perform according to the terms of the swap contract, the Authority faced a maximum possible loss equivalent to the swap's $3,678,391 fair value. As of June 30, 2004, the swap counterparty, Citigroup Financial Products (with a guarantee from Citigroup Global Markets Holdings Inc.) (collectively, "Citigroup") was rated Aa1 by Moody's Investors' Service ("Moody's"), AA- by Standard & Poor's Ratings ("S&P") and AA+ by Fitch. To mitigate credit risk, if the counterparty's credit rating falls below A3 by Moody's or A- by S&P, the swap will be assigned to a third party reasonably acceptable to the Authority or the swap will be terminated.

***Interest rate risk.*** The swap increases the Authority's exposure to interest rate risk. As the BMA Municipal Swap Index increases, the Authority's net payment on the swap increases or net receipts decrease.

***Termination risk.*** The Authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. Citigroup may terminate the swap (a) if the Authority's senior general obligation revenue debt is rated less than A3 as determined by Moody's or A- by S&P, (b) if as of the last day of any calendar month, the available moneys on deposit in the Improvement and Extension Fund are less than $20 million, or (c) if the amount on deposit in the Swap Account of the Improvement and Extension Fund thirty days prior to any payment date is less that $500,000. If at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for that payment.

In fiscal year 2004, the Authority received four quarterly payments from Citigroup totaling $3,043,855. $1,704,559 was applied to the debt service for the 1999-D Bonds and $1,339,296 was applied to the debt service for the 1998-E Bonds.

Interest expense for fiscal year 2004 was reduced by the net amounts received under the interest rate swap agreement of $3,043,855 for fiscal year 2004 and by $2,069,884 for fiscal year 2003.

**I. Pension Costs**

In July 1978, the Massachusetts legislature passed legislation which was enacted as Chapter 487 of the Massachusetts Acts of 1978 ("C.487") and signed into law on July 18, 1978. This act provided for the establishment of the "Massachusetts Port Authority Employees' Retirement System," (the "Plan"), a contributory retirement system that is separate from the Massachusetts State Employees' Retirement System. Prior to this enactment, Authority employees were

**I. Pension Costs, continued**

members of the state employees' system, and the funding of the pension liability was on a "pay as you go" method. Pursuant to C.487, the employees' rights and benefits under the state plan were transferred to the new system, and the Authority established a separate pension fund. The Plan was established to provide retirement benefits for substantially all employees of the Authority and incidental benefits for their surviving spouses, beneficiaries and contingent annuitants. The Plan is a contributory single employer defined benefit plan to which the Authority and its employees contribute such amounts as are necessary, on an actuarial basis, to provide assets sufficient to meet benefits to be paid to plan participants. The Plan issues a stand-alone financial report which can be obtained by writing to:

Massachusetts Port Authority Employees' Retirement System
One Harborside Drive, Suite 200S
East Boston, MA 02128-2909

At January 1, 2004, the Plan's membership consisted of:

| | |
|---|---|
| Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them: | 491 |
| Current members: | |
| Active | 1,072 |
| Inactive | 98 |
| Total | 1,661 |

Benefits are paid by the Plan from net assets available for Plan benefits. Plan participants are entitled, at normal retirement date, to benefit payments based upon length of service and earnings levels. Vesting occurs after ten years of service. Optional payment methods may be elected, including the contingent annuitant method which provides for reduced payments during the life of the Plan participant and continued payments to the participant's beneficiary after the death of the participant.

The Authority's covered payroll for members of the Plan as of the most recent actuarial valuation date was approximately $64.5 million as of January 1, 2004 and $64.9 million as of January 1, 2003. Total payroll for Authority employees was approximately $83.2 million for the 12 months ended June 30, 2004 and $79.2 million for the 12 months ended June 30, 2003.

The actuarial cost method utilized to determine contributions for the years ended December 31, 2003 and 2002 is the Frozen Entry Age Actuarial Cost Method Plan.

The more significant actuarial assumptions underlying the actuarial computations for the Plan years ended December 31, 2003 and 2002 are as follows:

| | | |
|---|---|---|
| Assumed rate of return on investments | - | 7.75% and 8.0% per annum compounded annually, respectively |
| Nondisabled life mortality basis | - | The RP-2000 Mortality Table |
| Withdrawal prior to retirement | - | The rates shown at the following sample ages illustrates the withdrawal assumption |

**I. Pension Costs, continued**

| Age | Rate of Withdrawal Group 1 and 2 | Group 4 |
|---|---|---|
| 25 | 9.0% | 1.8% |
| 30 | 5.6 | 1.7 |
| 35 | 3.2 | 1.3 |
| 40 | 2.3 | 0.5 |
| 45 | 1.8 | 0.04 |
| 50 | 1.5 | N/A |
| 55 | N/A | N/A |

Salary escalation - 5.0% and 5.5% per annum, respectively

Rate of Inflation - 3.0% per annum

Rates of retirement - Group 1 and 2 employees are assumed to retire at the following rates upon attainment of 10 years of service:

Rate of Retirement

| Age | Groups 1 and 2* |
|---|---|
| 55 | 9% |
| 56 | 3 |
| 57 | 5 |
| 58 | 2 |
| 59 | 6 |
| 60 | 6 |
| 61 | 8 |
| 62 | 11 |
| 63 | 14 |
| 64 | 13 |
| 65 | 100 |

*Groups 1 and 2 are assigned based on employee class.

- Group 4 employees are assumed to retire upon the attainment of age 58 and 10 years of service

Retirement benefits - Depending on age at retirement and "Group" classification, 0.1%-2.5% per year of service times highest three-year average salary.

Post retirement cost of living increases - 3% per annum compounded annually on the first $12,000 of pension benefits.

### I. Pension Costs, continued

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due and fund operating costs of the Plan. The Plan also amortizes the unfunded actuarial accrued liabilities in level amounts at 8% over a period of 20 years on a closed basis. The actuarial value of assets is determined using fair values (adjusted by payables and receivables) adjusted to phase in investment gains or losses above or below the expected rate of investment return. A four-year rolling period is used.

Total contributions to the Plan were $7,734,597 for the plan year ended December 31, 2003. This includes employee contributions of $5,892,444, which are based upon a percentage of employee base pay (5% for employees hired before January 1, 1975, 7% for employees hired between January 1, 1975 and January 1, 1984, 8% for employees hired after January 1, 1984 and 9% for employees hired after July 1, 1996 and, effective January 1, 1998, an additional 2% of base pay over $30,000 for those employees hired after December 31, 1978), and the Authority's contribution of $1,842,153 to the Plan for the year ended December 31, 2003. Authority contributions are determined in accordance with an actuarial valuation performed for the Plan's fiscal year beginning January 1, 2003.

As presented in the following table, the Frozen Entry Age Actuarial Method for calculating the schedule of funding progress is the methodology required by the Plan under its charter.

**(in thousands)**

| | (a) | (b) | (b-a) | (a/b) | (c) | (b-a)/c |
|---|---|---|---|---|---|---|
| **Actuarial valuation date** | **Actuarial valuation assets** | **Actuarial accrued liability ("AAL")** | **Unfunded actuarial accrued liability ("UAAL")** | **Funded ratio** | **Covered payroll** | **UAAL as a percent of covered payroll** |
| 1/1/03 | $275,618 | $261,594 | ($14,024) | 105.4% | $64,945 | -21.6% |
| 1/1/02 | 293,120 | 294,457 | 1,337 | 99.5% | 63,604 | 2.1% |
| 1/1/01 | 285,609 | 285,209 | (400) | 100.1% | 65,403 | -0.6% |
| 1/1/00 | 260,162 | 262,606 | 2,444 | 99.1% | 61,250 | 4.0% |
| 1/1/99 | 230,807 | 234,184 | 3,377 | 98.6% | 56,888 | 5.9% |
| 1/1/98 | 202,761 | 208,176 | 5,415 | 97.4% | 54,393 | 10.0% |

Analysis of the dollar amounts of actuarial value of assets, AAL and UAAL, in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the AAL provides one indication of the Plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Public Employee Retirement System (PERS). Trends in assets in excess of AAL and annual covered payroll are both affected by inflation. Expressing the assets in excess of AAL as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of progress made in accumulating sufficient assets to pay benefits when due.

**I. Pension Costs, continued**

**Schedule of Employer Contributions**
**(in thousands)**

| Calendar Year ended December 31 | Annual required employer contributions (ARC) | Employer contributions as a percent of ARC |
|---|---|---|
| 2003 | $1,842 | 100% |
| 2002 | - | 0% |
| 2001 | - | 0% |

The Plan's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

**Investment Valuation**
Plan investments are reported at fair value. Securities traded on a national or international securities exchange are valued at the last reported sales price on the last business day of the plan year; investments traded on a national securities exchange for which no sale was reported on that date and investments in common and preferred stocks traded in over-the-counter markets are valued at the mean of the last reported bid and asked prices, or the last reported bid price. Mutual funds and commingled funds, including real estate, are valued based on net asset value at year-end. Limited partnerships are valued using the valuations reported by the general partner.

Certain operating expenses incurred by the Plan are funded by the Authority through additional employer contributions. Investment management fees, consulting fees and custodial fees for the Plan are reflected as deductions to investment income.

**J. Contingent Liabilities and Commitments**

**Contractual Obligations for Construction**
Contractual obligations for construction were approximately $402,994,000 at June 30, 2004 and $302,138,000 at June 30, 2003.

**Guarantee and Intercreditor Agreement**
During fiscal 2002, the Authority entered into a Guarantee and Intercreditor Agreement (the "Intercreditor Agreement") with The Bank of New York (the "Bank") in connection with an unrelated limited liability company's bonds. The bonds were issued in fiscal 2000 to provide financing to the limited liability company (the "Company"), which is a tenant of the Authority, to fund construction of a multi-tenant seafood processing and distribution center (the "Facility") located at the North Jetty in the Marine Industrial Park in Boston, Massachusetts on which the Authority has a long-term lease from the City of Boston. The Facility was substantially completed and fully leased at June 30, 2002 and remained fully leased as of June 30, 2004. The Intercreditor Agreement represents a guarantee by the Authority to pay the Bank up to $10 million in the event the Company does not meet its obligations to pay the guaranteed obligations, as defined. The Authority and the Company have also entered into an Amended and Restated Reimbursement Agreement (the "Reimbursement Agreement") pursuant to which the Authority has agreed to advance for the benefit of the Company up to $10 million to the Bank

**J. Contingent Liabilities and Commitments, continued**

under the Intercreditor Agreement in the event the Company fails to repay drawings on the letter of credit issued by the Bank to support the bonds and up to $900,000 to others for certain additional costs, and the Company has agreed to repay such advances over a term of up to 15 years, with interest on the unpaid balance at 5% per annum. Such obligations of the Authority are payable solely from available moneys, as defined, in the Improvement and Extension Fund established under the 1978 Trust Agreement and cash collateral, if any, provided to the Bank under the Intercreditor Agreement.

As of June 30, 2004, the Authority had advanced on behalf of the Company, $896,786 of the $900,000 authorized, and received repayments of $315,120, which included principal and interest on the loan. In the opinion of the Authority's management, no advance pursuant to the Intercreditor Agreement is anticipated during the next twelve months and, no further advances pursuant to the Reimbursement Agreement are anticipated during the next twelve months.

**Third Harbor Tunnel**

The Massachusetts Highway Department ("MHD") is undertaking a depression of a portion of I-93 in downtown Boston ("Central Artery") and the extension of the eastern terminus of I-90 to the Airport by construction of a new tunnel under Boston Harbor (the "Ted Williams Tunnel"), (collectively, the "CA/T Project").

In March 1999, the Authority, MHD and the Massachusetts Turnpike Authority entered into a Roadway Transfer Agreement, which was amended January 29, 2001, that provides for the acquisition by the Authority of certain identified segments of the CA/T Project located at Logan Airport following completion of construction of such segments, in exchange for installment payments by the Authority to the Commonwealth totaling an aggregate of $365 million. The Authority has made payments totaling $265 million through June 30, 2004. Subject to the transfer to the Authority of assets of equivalent value, two remaining payments of $50 million each will be due. As no assets were transferred in fiscal year 2004, no additional payments were made.

The Authority and MHD entered into a Settlement Agreement dated as of January 15, 1998 (the "CA/T Settlement Agreement") which is intended to resolve all past and certain future land acquisition claims relating to the portions of the Authority's property at the Airport and in South Boston necessary to complete the Ted Williams Tunnel project.

Pursuant to the CA/T Settlement Agreement, MHD has made payments to the Authority and certain of its tenants and agreed to provide certain betterments to the Authority. As of June 30, 2004, the Authority has received payments from MHD totaling approximately $41.9 million. In return, the Authority has released MHD from all land damage lawsuits and claims relating to the Ted Williams Tunnel project asserted by the Authority against MHD, to assist MHD with relocation of certain Airport tenants, to work diligently to cause certain tenants of the Authority to dismiss pending land damage actions against MHD, and to provide MHD with sufficient rights in land owned by the Authority at the Airport to permit MHD to complete the Ted Williams Tunnel project, as currently designed.

## J. Contingent Liabilities and Commitments, continued

### Seaport Bond Bill

The Seaport Bond Bill was enacted on February 14, 1996 and provides authorization for funding by the Commonwealth of $15 million toward the nonfederal share of the cost of completing the Boston Harbor Navigation Improvement Project. The Seaport Bond Bill requires the Authority to pay twenty-five percent (25%) for the nonfederally funded costs of the Project. The Authority has already paid or committed approximately $5 million for the nonfederal share of the Project. Private berth owners have paid for the dredging of their individual berths. A second provision of the Seaport Bond Bill would provide a mechanism for funding improvements to the Massachusetts rail transportation network allowing rail shipment of double stack cargo from Allston yards in Boston to points west, which is anticipated to encourage expanded container shipments through the Port of Boston. The Seaport Bond Bill requires that the Authority provide up to fifty percent (50%) of the cost of improvements to the rail line from Framingham to the Allston yard in Boston permitting double stack shipments, at an estimated cost to the Authority of approximately $38 million. Expenditure of funds will not occur until the execution of a Master Agreement, as defined by the statute, between the Commonwealth and the participating railroads.

### Worcester Airport

On April 15, 1999, the Authority entered into a Memorandum of Understanding ("M.O.U. ") with the City of Worcester, Massachusetts and the Worcester Airport Commission (the "City Parties"). The M.O.U. contemplates the takeover of the Worcester Regional Airport by the Authority in two separate phases. In compliance with Phase One, on January 15, 2000, the Authority assumed operating responsibility for Worcester Regional Airport pursuant to a separate Operating Agreement (the "OA") which was amended in 2004.

The terms of the OA provide for the allocation of the net operating deficits for Worcester Regional Airport between the Authority and the City of Worcester, with the Authority assuming 100% of those net operating deficits during fiscal years 2003 and 2004. For the years ending June 30, 2004 and 2003, the Authority paid $2,168,000 and $1,923,000, respectively, for the net operating deficits of Worcester Regional Airport, plus certain of the Authority's direct expenses associated with operation of the Worcester Regional Airport. The OA was amended in 2004 to extend the term of the OA to end on June 30, 2007, and to allocate to the Authority responsibility for the following percentages of Worcester Regional Airport's operating deficit: for fiscal year 2005, 100%; for fiscal year 2006, 85%; and for fiscal year 2007, 68%. The Authority's portion of Worcester Regional Airport's budget deficits for fiscal years 2005, 2006 and 2007 are projected to be $2,081,927, $1,769,638 and $1,415,710, respectively. The entire projected loss has been accrued in fiscal year 2004.

Phase Two, anticipated by the M.O.U. to take place prior to the termination date of the OA, may involve the transfer of title of Worcester Regional Airport from the City Parties to the Authority. However, legislation would be required to effectuate such transfer. The Authority's goal is to develop a more effective and efficient regional airport network by increasing utilization of Worcester Regional Airport in conjunction with ongoing operation of its other airport facilities.

## K. Payments in Lieu of Taxes

The Enabling Act authorizes and directs the Authority, subject to certain standards and limitations, to enter into agreements (collectively, the "PILOT Agreements") to make annual payments in lieu of taxes to Boston, Chelsea, and Winthrop. In fiscal 1992, the Authority's obligation to the City of Chelsea for annual in-lieu-of-tax payments through 2012 was satisfied by a payment of $5,000,000. In response to increased traffic on the Bridge and the increased impact of the Airport on Chelsea since 1992, however, the Authority and Chelsea amended their PILOT Agreement in fiscal 1999 to provide for annual payments by the Authority to Chelsea of $500,000 for each of the fiscal years 1999 through 2003, inclusive. This amendment expired June 30, 2003.

In fiscal 1994, the Authority entered into an extension of an amendment to its agreement with the Town of Winthrop (the "Winthrop PILOT Agreement") which extended the base in-lieu-of-tax payments through fiscal 1999 and included an additional extension of the term of the agreement through June 30, 2004. The Authority has offered to extend the term of the Winthrop PILOT Agreement, but as of September 24, 2004, Winthrop has not yet responded to this offer. The 1995 amendment to the Winthrop PILOT Agreement also added further components to such payments, including a parks/related facilities portion of $150,000, which is adjusted annually based upon the percentage increase in the number of annual air passengers at Logan Airport. In August 1997, the Authority and Winthrop entered into a further amendment of the Winthrop PILOT Agreement which added further components to such in lieu of taxes payments, including an Additional Environmental Portion consisting of an annual payment of $150,000. The Additional Environmental Portion is not subject to the escalation provisions of the Winthrop PILOT Agreement.

In fiscal 1995, the Authority entered into a comprehensive Amended and Restated Payment-in-Lieu-of-Taxes Agreement with the City of Boston, (the "Boston PILOT Agreement"), with a term commencing on March 14, 1995 and ending June 30, 2005. The Authority has offered to extend the term of the Boston PILOT Agreement, but as of September 24, 2004, the City of Boston has not yet responded to this offer. Pursuant to the Boston PILOT Agreement, the Authority will pay to the City the sum of $10,000,000 annually, which payment will be increased by the annual percentage change in the consumer price index, provided that such increase shall be no less than 3%, nor greater than 7%, per year, less an established credit, per the Boston PILOT Agreement. In August 1997, the Authority and certain community groups entered into agreements which provide for additional payments under the Boston PILOT Agreement, for a minimum of $4.8 million and up to $9.6 million, with payments to be made as milestones associated with modernization of Logan Airport were reached. These additional payments are not subject to annual adjustment.

The Authority's Enabling Act, the 1978 Trust Agreement and the PILOT Agreements provide that annual payments under the PILOT Agreements may not exceed the balance of revenues remaining after deposits to the payment of operating expenses, required deposits to the Interest and Sinking Fund and required deposits to the Maintenance Reserve Fund.

## L. Litigation

The Authority is engaged in routine litigation as well as litigation which includes matters involving the terrorist attacks of September 11, 2001, environmental issues, and the Authority's capital program.

On September 11, 2001, terrorists hijacked American Airlines flight 11 and United Airlines flight 175 and flew them into the World Trade Center in New York, N.Y. The terrorist acts caused the deaths of approximately 3,000 persons, unknown numbers of personal injuries, and massive property damage. Both flights originated at Logan Airport.

In September 2001, Congress passed the Air Transportation Safety and System Stabilization Act of 2001, which provides, among other things, that victims who suffered physical injury or death as a result of the events of September 11, 2001 could file a claim with a newly created Victim Compensation Fund (the "Fund"). Those who sought such compensation waived the right to file a civil lawsuit. The Fund does not apply to claims for property damage, business interruption, or the like. 98% of claimants eligible for the Fund filed a claim with the Fund.

As of September 24, 2004, there were a large number of lawsuits pending against numerous defendants related to the events of 9/11. These lawsuits include approximately forty-five (45) wrongful death lawsuits, one (1) physical injury lawsuit and thirteen (13) property damage lawsuits against the Authority and other defendants.. The plaintiffs in the property damage lawsuits include, but are not limited to, the Port Authority of New York and New Jersey, owner of the World Trade Center complex (the "WTC"), World Trade Center Properties, LLC, the lessee of the WTC, and insurers for various businesses located in or around the WTC. The statute of limitations for any such lawsuits expired on September 11, 2004.

In November 2001, Congress passed the Aviation and Transportation Security Act ("ATSA"). The Act provides a limitation on liability of various entities, including airport sponsors such as the Authority, for the events of 9/11. Specifically, the liability of an airport sponsor for those events "shall not be in an amount greater than the limits of liability insurance coverage maintained by that . . . airport sponsor." The Authority has insurance in effect to cover these incidents in the amount of $500,000,000 per occurrence and consequently, under ATSA the Authority's liability, if any, would be limited to such amounts. To the Authority's knowledge, the Authority's insurer has received copies of all complaints and Notices of Claim and/or any other form of notification to the Authority by an individual claiming to have suffered a loss.

Furthermore, to the Authority's knowledge, its insurer has agreed to defend any such claims and has not reserved its rights to deny coverage with respect to any of those claims although the insurer has reserved its rights with respect to (i) the number of occurrences, (ii) indemnification of the Authority against any award of punitive damages, and (iii) the Authority's rights as a named additional insured under other policies of insurance, including policies of the Authority's tenants and licensees.

Absent the limitation in ATSA, the amount of potential damages that could be awarded against the Authority if it were found liable in these lawsuits, based on the total amount of liability claimed, is an amount that would have a significant, materially adverse effect on the financial condition of the Authority. While the Authority cannot predict the outcome of any of these lawsuits or subsequent challenges, if any, to ATSA, it believes it has meritorious defenses to these actions and will continue to review and assess the various claims asserted.

**L. Litigation, continued**

The Authority received a M.G.L. c.21E demand letter from MRP Site Development, Inc. ("MRP") alleging that the Authority is liable for contribution, reimbursement or an equitable share of the costs of assessing and remedying contamination found at various sites as a result of MRP's use of fill or waste materials allegedly originating from the Authority's Revere Sugar site buildings in Charlestown. MRP has not filed suit pursuant to such demand.

Historical contamination has also been discovered on various Massport properties located in South Boston. As the owner of the properties, the Authority is a "responsible party" under M.G.L. c.21E for costs of investigating and remediating the contamination at these sites. The full extent of the contamination and necessary remediation measures have not yet been determined; however, the costs could be material to the Authority's results of operations. In addition, the Authority has not yet determined whether and to what extent those costs may be recoverable from other parties responsible for the contamination.

The Authority is engaged in a significant capital program which includes a number of large and complex construction projects. It has been the Authority's experience with respect to large, complex projects that, at or near the beneficial occupancy of such projects, or a phase of such projects, contractors, subcontractors, engineers and others often assert large claims against the Authority, which claims are often, in the aggregate, in excess of 20% of the contract amount for such projects. The Authority has vigorously contested such claims and, to date, has settled all of such claims for amounts within the project budget for each such project. The Authority believes that it is likely that large claims will continue to be asserted in the future against the Authority by contractors, subcontractors, consultants and others with respect to large, complex projects now under construction. The Authority will vigorously contest any such claim; however, there can be no assurance that the Authority will prevail or that any damages awarded will be within the project budget for any such project. On or about April 18, 2003, the Authority received a claim from the general contractor for the International Gateway project for $57.1 million in additional costs and costs associated with delays. The parties have reached a settlement regarding this claim and the settlement has been accrued in these financial statements. On October 9, 2002, the Authority was served with a complaint by HBG Flatiron alleging unspecified damages arising from the terminal area roadways construction contract. While the complaint does not specify the amount of damages alleged, the Authority believes that the damages sought could be significant. Based on the discovery conducted to date, the Authority believes it has meritorious defenses in this action, and it will continue to review and assess the various claims asserted. On or about October 14, 2003, FKI Logistex Integration filed a complaint against the Authority alleging that the Authority and its construction manager breached their obligations to make certain payments due under a contract for the construction of hold baggage screening systems. The Authority has denied the allegations, and the parties are engaged in discovery.

In Rauseo/Medford Realty Trust v. Massachusetts Port Authority, the plaintiff sued to enforce a 1998 agreement that allegedly required the Authority to assist the plaintiff's efforts to convert a vacant warehouse to residential use. While the plaintiff's claim for damages was originally $150,000, it has increased to $3.9 million. In August 2003, the court dismissed the Plaintiff's claim. The Plaintiff is appealing.

**L. Litigation, continued**

As of September 2003, the Authority was a party to three separate lawsuits related to the Airside Improvements Planning Project. One of these lawsuits was brought in Massachusetts state court by the Authority to obtain relief from a 27 year-old injunction barring certain runway construction at Logan Airport. A second lawsuit was brought in state court against the Authority by the Town of Hull challenging the MEPA approval for the project, and also asserting that the current operation of the Airport constitutes a public nuisance. A third lawsuit was filed in the District of Columbia Circuit of the Court of Appeals in September 2002 by Communities Against Runway Expansion against the FAA challenging the FAA's Record of Decision for the project. These cases have been dismissed.

The Authority also is engaged in numerous matters of routine litigation. These matters include personal injury and property damage claims for which the Authority's liability is covered in whole or in part by insurance. Others include such matters as disputes with contractors, subcontractors, engineers and others arising out of construction and maintenance of its properties; disputes over leases and concessions; property, theft and damage claims arising from the Authority's operations, employment matters and workers compensation, as to which the Authority is self-insured. The Authority does not expect that these matters will require any amounts to be paid which, in the aggregate, will be material to the results of operations.

## M. Leases

The Authority leases a major portion of its Aviation and Port Properties to various tenants. Most of these operating leases provide for periodic adjustments to rental rates. In addition, certain of the lease agreements contain provisions for contingent payments based on a specified percentage of the tenant's gross revenue. Rental income from contingent payments received under these provisions was approximately $27,587,000 and $30,633,000 for fiscal years 2004 and 2003, respectively.

Minimum future rental income, excluding contingent rentals, from noncancelable operating leases as of June 30, 2004 are:

| Year | Amount (in thousands) |
|---|---|
| 2005 | $ 34,551 |
| 2006 | 33,394 |
| 2007 | 31,165 |
| 2008 | 28,847 |
| 2009 | 26,094 |
| Thereafter | 549,272 |
| Total | $ 703,323 |

The Authority has also entered into operating leases as the lessee. The following is a schedule by years of future minimum rental payments under noncancelable operating leases as of June 30, 2004:

| Year | Amount (in thousands) |
|---|---|
| 2005 | $ 23,223 |
| 2006 | 15,025 |
| 2007 | 11,893 |
| 2008 | 11,532 |
| 2009 | 11,530 |
| Thereafter | 39,041 |
| Total | $ 112,244 |

Rent expense was $23,475,000 and $21,906,000 for fiscal years 2004 and 2003, respectively.

## N. Interagency Agreement

In May 1996, the Authority entered into an interagency agreement with the MHD and Massachusetts Bay Transportation Authority ("MBTA") for the construction of a Regional Transportation Center ("RTC") in Woburn, Massachusetts (the "Interagency Agreement").

Under the terms of the Interagency Agreement, the Authority has paid one third of the cost of acquiring the site and constructing the RTC, and will share in a like proportion in the profits and losses of the RTC.

The RTC opened in May 2001. For fiscal years 2004 and 2003, the RTC's operating losses were $321,600 and $577,500, respectively. The Authority's proportionate share of RTC's operating losses for fiscal years 2004 and 2003 is $107,200 and $192,500, respectively, which is included in "Other expenses" under "Non-Operating Revenues (Expenses)". Separate financial statements from the joint venture may be obtained by writing to:

RTC Joint Venture
c/o Massachusetts Port Authority
One Harborside Drive
East Boston, MA 02108
Attn: Christopher Gordon, Director of Capital Programs and Logan Modernization

## O. Risk Management

The Authority is exposed to various risks of loss related to theft of, damage to and destruction of assets, injuries to third parties and employees. The Authority maintains a risk control effort through a risk transfer program that includes insurance and indemnification in favor of the Authority from third parties. The Authority, as mandated by the 1978 Trust Agreement, maintains a Self-Insurance Account within the Operating Fund. As of June 30, 2004 and 2003, the Self-Insurance Account had assets of $41,429,000 and $34,301,000, respectively, available to pay future claims. During fiscal years 2004 and 2003, the Authority maintained ten different sub accounts to finance its self-insured risk that is funded through internal financing. The Authority carries insurance coverage for property, business interruption, liability and worker's compensation with various deductibles and limits and for other exposure to losses. The self insurance accruals are determined by the Risk Management Department based on insurance claim history and actuarial estimates needed to pay prior and current-year claims. The overall accrual was approximately $13,722,000 and $5,591,000 as of June 30, 2004 and 2003, respectively, and is included as a component of accrued expenses in the accompanying financial statements. Changes in the accrued liability accounts in fiscal year 2004 and 2003 are as follows:

**(in thousands)**

| Fiscal Year | Beginning Liability | Claims and Changes in Estimates | Claim Payments | Ending Liability |
|---|---|---|---|---|
| 2003 | $ 5,360 | 3,830 | (3,599) | $ 5,591 |
| 2004 | $ 5,591 | 11,477 | (3,346) | $ 13,722 |

**O. Risk Management, continued**

There were no significant reductions in insurance coverage from the prior year by major category of risk. In addition, insured claims have not exceeded insurance coverage in the past three years.

As part of the risk financing program at the Authority, risk of loss is retained through deductibles or self-insured retentions. These are used in the property, business interruption, liability and workers' compensation programs, with varying retained amounts ranging from $25,000 to $750,000. These retained risks are funded through the Self Insurance Account.

The most formal programs exist in workers' compensation and third party liability. As a modified self-insurer (both risks involve insurance excess of a substantial self-insured retention), the Authority engages in loss prevention and claims management.

The Authority discharges its obligation to provide workers' compensation coverage, required by Massachusetts General Laws, Chapter 152, by obtaining a license as a self insurer from the Division of Industrial Accidents.

The property policies are currently constructed to provide loss payments for the repair, replacement or reconstruction of the damaged or destroyed property in compliance with the requirements of the 1978 Trust Agreement.

**P. Subsequent Event**

In order to mitigate the ongoing impact of the operation of the Airport on the residents of East Boston, Section 40 of Chapter 291 of the Acts of 2004, enacted on August 10, 2004, directs the Massachusetts Turnpike Authority to transfer Bremen Street Park, upon completion, to the Authority for the consideration of one dollar. The Authority is then directed to operate, maintain and manage Bremen Street Park. The completion date for the Bremen Street Park is expected to be after July 1, 2005. As of this date, the costs of operation, maintenance and management of Bremen Street Park cannot be reasonably estimated.

# Massachusetts Port Authority
## Supplemental Schedule of Combining Balance Sheet
## June 30, 2004
## (In Thousands)

| | Authority Operations | PFC Program | Combined |
|---|---|---|---|
| **ASSETS** | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | $ 43,136 | $ - | $ 43,136 |
| Investments | 63,383 | - | 63,383 |
| Accounts receivable – net of allowance for doubtful accounts | 27,607 | 2,500 | 30,107 |
| Accounts receivable-grants | 13,446 | - | 13,446 |
| Prepaid expenses and other assets | 3,983 | 403 | 4,386 |
| Total current assets | 151,555 | 2,903 | 154,458 |
| NONCURRENT ASSETS | | | |
| Assets whose use is limited | | | |
| Cash and cash equivalents | 73,990 | 634 | 74,624 |
| Investments | 352,670 | 61,421 | 414,091 |
| Prepaid expenses | 19,035 | 2,031 | 21,066 |
| Investment in joint venture | 3,650 | - | 3,650 |
| Intangible assets | 41,635 | - | 41,635 |
| Capital assets | | | |
| Completed facilities | 2,658,106 | 522,972 | 3,181,078 |
| Less accumulated depreciation | (1,117,288) | (58,978) | (1,176,266) |
| | 1,540,818 | 463,994 | 2,004,812 |
| Construction in progress | 167,680 | 21,713 | 189,393 |
| Capital assets, net | 1,708,498 | 485,707 | 2,194,205 |
| Total noncurrent assets | 2,199,478 | 549,793 | 2,749,271 |
| **TOTAL ASSETS** | $ 2,351,033 | $ 552,696 | $ 2,903,729 |

*(Continued on next page)*

# Massachusetts Port Authority
## Supplemental Schedule of Combining Balance Sheet, Continued
## June 30, 2004
## (In Thousands)

| | Authority Operations | PFC Program | Combined |
|---|---|---|---|
| **LIABILITIES AND NET ASSETS** | | | |
| CURRENT LIABILITIES | | | |
| Accounts payable and accrued expenses | $ 64,369 | $ 16,662 | $ 81,031 |
| Compensated absences | 947 | - | 947 |
| Retainage | 3,676 | - | 3,676 |
| Current maturities of funded debt | 31,910 | 9,995 | 41,905 |
| Accrued interest payable | 29,300 | 5,776 | 35,076 |
| Deferred income | 5,420 | - | 5,420 |
| Total current liabilities | 135,622 | 32,433 | 168,055 |
| NON-CURRENT LIABILITIES | | | |
| Accrued expenses | 21,352 | - | 21,352 |
| Compensated absences | 18,007 | - | 18,007 |
| Retainage | 5,939 | - | 5,939 |
| Funded debt | 1,222,139 | 213,249 | 1,435,388 |
| Deferred income | 13,091 | - | 13,091 |
| Total noncurrent liabilities | 1,280,528 | 213,249 | 1,493,777 |
| Total liabilities | 1,416,150 | 245,682 | 1,661,832 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 515,014 | 262,463 | 777,477 |
| Restricted | 358,318 | 44,551 | 402,869 |
| Unrestricted | 61,551 | - | 61,551 |
| Total net assets | 934,883 | 307,014 | 1,241,897 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 2,351,033 | $ 552,696 | $ 2,903,729 |

# Massachusetts Port Authority
## Supplemental Schedule of Combining Statements of Revenues, Expenses and Changes in Net Assets
## For the Year Ended June 30, 2004
## (In Thousands)

| | Authority Operations | PFC Program | Combined |
|---|---|---|---|
| Operating revenues: | | | |
| Logan Airport | | | |
| Fee | $ 175,626 | $ - | $ 175,626 |
| Rentals | 98,101 | - | 98,101 |
| Concessions | 43,874 | - | 43,874 |
| Other | 12,950 | - | 12,950 |
| | 330,551 | - | 330,551 |
| Hanscom | | | |
| Fee | 1,566 | - | 1,566 |
| Rentals | 2,843 | - | 2,843 |
| Concessions | 1,180 | - | 1,180 |
| Other | 253 | - | 253 |
| | 5,842 | - | 5,842 |
| Bridge | | | |
| Tolls | 24,040 | - | 24,040 |
| | 24,040 | - | 24,040 |
| Maritime | | | |
| Fee | 33,903 | - | 33,903 |
| Rentals | 4,756 | - | 4,756 |
| Other | 40 | - | 40 |
| | 38,699 | - | 38,699 |
| Business Development | | | |
| Fee | 1,152 | - | 1,152 |
| Rentals | 9,525 | - | 9,525 |
| Other | 296 | - | 296 |
| | 10,973 | - | 10,973 |
| Operating Grant | 4,859 | - | 4,859 |
| Total operating revenues | 414,964 | - | 414,964 |
| Operating expenses: | | | |
| Operations and maintenance | 201,394 | - | 201,394 |
| Administration | 43,094 | - | 43,094 |
| Insurance | 10,234 | - | 10,234 |
| Pension | 1,834 | - | 1,834 |
| Payments in lieu of taxes | 12,419 | - | 12,419 |
| Provision for uncollectible accounts | 573 | - | 573 |
| Depreciation and amortization | 91,565 | 20,161 | 111,726 |
| Total operating expenses | 361,113 | 20,161 | 381,274 |
| Operating income | 53,851 | (20,161) | 33,690 |

*(Continued on next page)*

# Massachusetts Port Authority
## Supplemental Schedule of Combining Statements of Revenues, Expenses and Changes in Net Assets, Continued
## For the Year Ended June 30, 2004
## (In Thousands)

| | Authority Operations | PFC Program | Combined |
|---|---|---|---|
| Nonoperating revenues (expenses): | | | |
| Passenger facility charges | - | 32,845 | 32,845 |
| Investment income | 8,328 | 1,911 | 10,239 |
| Settlement of claim | 1,000 | - | 1,000 |
| Gain/(loss) on sale of equipment | 9 | - | 9 |
| Interest expense | (48,424) | (11,241) | (59,665) |
| Other expenses | (89) | (87) | (176) |
| Total nonoperating revenue | (39,176) | 23,428 | (15,748) |
| Income before capital grant revenue | 14,675 | 3,267 | 17,942 |
| Capital grant revenue | 90,115 | - | 90,115 |
| Increase in net assets | 104,790 | 3,267 | 108,057 |
| Net assets, beginning of year | 830,093 | 303,747 | 1,133,840 |
| Net assets, end of year | $ 934,883 | $ 307,014 | $ 1,241,897 |

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# Massachusetts Port Authority

## Statistical Section

## Historical Operating and Nonoperating Revenues According to GAAP
## Fiscal Year Ended June 30, 2004 (In Thousands)

### S-1 Operating and Nonoperating Revenues

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Operating Revenues** | | | | | | | | | | |
| Fees, tolls and other services | $139,687 | $ 141,201 | $ 142,460 | $ 158,007 | $ 170,839 | $182,873 | $ 187,357 | $ 174,508 | $214,116 | $ 236,287 |
| Rentals | 58,335 | 61,432 | 61,974 | 66,840 | 67,992 | 75,925 | 82,811 | 85,053 | 90,431 | 115,225 |
| Concessions | 30,794 | 35,235 | 38,031 | 43,654 | 46,461 | 46,315 | 45,495 | 42,741 | 46,829 | 45,054 |
| Other | 6,835 | 9,285 | 9,444 | 9,463 | 10,209 | 10,714 | 11,237 | 12,837 | 15,117 | 13,539 |
| Operating grants | - | - | - | - | - | - | - | 2,749 | 7,314 | 4,859 |
| **Total Operating Revenues** | 235,651 | 247,153 | 251,909 | 277,964 | 295,501 | 315,827 | 326,900 | 317,888 | 373,807 | 414,964 |
| **Nonoperating Revenues** | | | | | | | | | | |
| PFC revenue* | 31,187 | 33,159 | 32,266 | 33,874 | 35,327 | 36,815 | 36,324 | 29,445 | 29,090 | 32,845 |
| Investment income | 14,540 | 16,033 | 15,614 | 18,808 | 20,931 | 25,220 | 28,982 | 19,795 | 11,486 | 10,239 |
| Capital grant revenue** | - | - | - | - | - | - | 12,851 | 15,450 | 43,994 | 90,115 |
| Other/Gain on sales of assets | - | 5 | 384 | 577 | - | 139 | 1,664 | 17 | 31 | 9 |
| Settlement of claim | - | - | - | - | - | - | - | - | - | 1,000 |
| **Total Nonoperating Revenues** | 45,727 | 49,197 | 48,264 | 53,259 | 56,258 | 62,174 | 79,821 | 64,707 | 84,601 | 134,208 |
| **Total Revenues** | $281,378 | $ 296,350 | $ 300,173 | $ 331,223 | $ 351,759 | $378,001 | $ 406,721 | $ 382,595 | $458,408 | $ 549,172 |

* PFC accrued revenue exclusive of PFC interest earnings.

** During 2001, the Authority adopted GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions.* GASB Statement No. 33 requires that items of contributed capital be recorded as nonoperating revenue in the statement of revenues, expenses and changes in equity. GASB 33 states that governments should not restate contributed capital arising from periods prior to implementation of this statement.

# Massachusetts Port Authority

## Statistical Section

## Historical Operating and Nonoperating Expenses According to GAAP
## Fiscal Year Ended June 30, 2004 (In Thousands)

### S-2 Operating and Nonoperating Expenses

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Operating Expenses** | | | | | | | | | | |
| Operations and Maintenance | $ 102,293 | $ 108,428 | $ 108,355 | $ 114,197 | $ 132,756 | $ 135,468 | $ 152,185 | $ 155,510 | $ 181,765 | $ 201,394 |
| Administration | 44,226 | 50,969 | 50,068 | 49,889 | 54,457 | 54,054 | 50,965 | 45,981 | 41,814 | 43,094 |
| Insurance | 2,904 | 2,756 | 2,646 | 2,414 | 4,234 | 2,313 | 2,880 | 4,332 | 8,685 | 10,234 |
| Pension Costs | 2,491 | 2,610 | 2,070 | 2,588 | 1,533 | - | - | - | - | 1,834 |
| Payments in lieu of taxes | 6,409 | 10,236 | 10,526 | 12,062 | 13,465 | 12,031 | 13,093 | 12,209 | 12,559 | 12,419 |
| Provision for uncollectible accounts | (800) | (514) | 577 | 815 | 1,255 | (100) | 14 | 1,260 | 1,211 | 573 |
| Depreciation and Amortization * | 46,317 | 48,534 | 52,179 | 60,406 | 65,672 | 75,706 | 71,389 | 81,596 | 102,388 | 111,726 |
| **Total Operating Expenses** | 203,840 | 223,019 | 226,421 | 242,371 | 273,372 | 279,472 | 290,526 | 300,888 | 348,422 | 381,274 |
| **Nonoperating Expenses** | | | | | | | | | | |
| Interest Expense | 31,736 | 31,347 | 31,435 | 33,701 | 30,758 | 34,323 | 35,734 | 40,642 | 45,806 | 59,665 |
| Loss from sale of equipment | 1,137 | - | - | - | 98 | - | - | - | - | - |
| Termination of interest rate swap | - | - | - | 6,087 | - | - | - | - | - | - |
| Other Expense / Arbitrage | - | - | - | - | - | - | - | - | 3,962 | 176 |
| **Total Nonoperating Expenses** | 32,873 | 31,347 | 31,435 | 39,788 | 30,856 | 34,323 | 35,734 | 40,642 | 49,768 | 59,841 |
| **Total Expenses** | $ 236,713 | $ 254,366 | $ 257,856 | $ 282,159 | $ 304,228 | $ 313,795 | $ 326,260 | $ 341,530 | $ 398,190 | $ 441,115 |

* Prior to FY2000 depreciation and amortization were treated as nonoperating expenses in the Authority's Financial Statements.

# Massachusetts Port Authority
## Statistical Section

### Historical Operating Results and Debt Service Coverage
### Reconciliation Between GAAP and the 1978 Trust Agreement
#### Fiscal Year Ended June 30, 2004 (In Thousands)

**S-3 Operating Results and Debt Service Coverage**

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Operating Revenue:** | | | | | | | | | | |
| **Per Financial Statements** | $235,651 | $247,153 | $251,909 | $277,964 | $295,501 | $315,827 | $326,900 | $317,888 | $373,807 | $414,964 |
| Adjustments: | | | | | | | | | | |
| Provision for uncollectible accounts | 800 | 514 | (577) | (815) | (1,255) | 100 | (14) | (1,260) | (1,211) | |
| Other | 1 | - | (88) | - | 1 | - | - | - | | |
| Operating grant - State Police details | - | - | - | - | - | - | - | - | (6,880) | |
| **Operating Revenue:** | | | | | | | | | | |
| **Per the 1978 Trust Agreement** | 236,452 | 247,667 | 251,244 | 277,149 | 294,247 | 315,927 | 326,886 | 316,628 | 365,716 | 414,964 |
| **Income on Investments:** | | | | | | | | | | |
| **Per Financial Statements** | 14,540 | 16,033 | 15,614 | 18,808 | 20,931 | 25,220 | 28,982 | 19,795 | 11,486 | 10,239 |
| Adjustments: | | | | | | | | | | |
| PFC - Trust Agreement | (1,573) | (3,244) | (4,189) | (3,748) | (3,021) | (5,948) | (5,345) | (4,045) | (2,159) | (1,909) |
| Self Insurance Accounts | (1,002) | (1,140) | (1,213) | (1,322) | (1,375) | (1,524) | (1,660) | (1,450) | (1,076) | (606) |
| Other | - | (1) | - | - | - | - | (5) | (568) | 531 | (283) |
| Park Ex | - | - | - | - | - | - | (368) | (773) | (820) | (873) |
| **Income on Investments:** | | | | | | | | | | |
| **Per the 1978 Trust Agreement** | 11,965 | 11,648 | 10,212 | 13,738 | 16,535 | 17,748 | 21,604 | 12,959 | 7,962 | 6,568 |
| **TOTAL REVENUES** | | | | | | | | | | |
| **Per the 1978 Trust Agreement** | **$248,417** | **$259,315** | **$261,456** | **$290,887** | **$310,782** | **$333,675** | **$348,490** | **$329,587** | **$373,678** | **$421,532** |
| **Operating Expenses:** | | | | | | | | | | |
| **Per Financial Statements** | $203,840 | $223,019 | $226,421 | $242,371 | $273,372 | $279,472 | $290,526 | $300,888 | $348,422 | $381,274 |
| Adjustments: | | | | | | | | | | |
| Insurance | 207 | 500 | 619 | 476 | (1,676) | 141 | 10 | (905) | 358 | (1,610) |
| Pension Adjustments | 537 | 569 | 604 | 640 | - | - | - | - | - | - |
| Payments in Lieu of Taxes | (6,409) | (10,236) | (10,526) | (12,032) | (13,465) | (12,031) | (13,093) | (12,209) | (12,559) | (12,419) |
| Provision for uncollectible accounts | 800 | 514 | (577) | (815) | (1,255) | 100 | (14) | (1,260) | (1,211) | |
| Depreciation and Amortization | (46,317) | (48,534) | (52,179) | (60,406) | (65,672) | (75,706) | (71,389) | (81,597) | (102,388) | (111,726) |
| Other Expenses | 1 | (13) | (26) | (531) | (3,288) | (250) | (1,096) | (1,451) | (1,923) | (12,666) |
| Other Expense / State Police Details | - | - | - | - | - | - | - | - | (6,880) | - |
| Administration Expenses | - | - | - | - | - | - | - | - | - | 1,000 |
| **TOTAL EXPENSES** | | | | | | | | | | |
| **Per the 1978 Trust Agreement** | 152,659 | 165,819 | 164,336 | 169,703 | 188,016 | 191,726 | 204,944 | 203,466 | 223,819 | 243,853 |
| **Net Revenue:** | | | | | | | | | | |
| **Per the 1978 Trust Agreement** | **$95,758** | **$93,496** | **$97,120** | **$121,184** | **$122,766** | **$141,949** | **$143,546** | **$126,121** | **$149,859** | **$177,678** (1) |
| Annual Debt Service (2) | **$48,024** | **$47,054** | **$47,061** | **$46,560** | **$56,956** | **$57,444** | **$64,965** | **$69,711** | **$74,089** | **$80,696** |
| Annual Debt Service Coverage (2) | 1.99 | 1.99 | 2.06 | 2.60 | 2.16 | 2.47 | 2.21 | 1.81 | 2.02 | 2.20 |

(1) Column does not add due to rounding.
(2) Proceeds of passenger facility charges ("PFCs") are excluded from Revenues because such proceeds have been excluded from Revenues under the 1978 Trust Agreement.
As used in the table, "Annual Debt Service" is equal to the "Principal and Interest Requirements" on Bonds, net of Capitalized Interest and swap proceeds ( other than PFC Revenue Bonds, Commercial Paper, Subordinated Revenue Bonds and Special Facilities Revenue Bonds) outstanding for the applicable fiscal year.

MASSACHUSETTS PORT AUTHORITY

Statistical Section

HISTORICAL OPERATING RESULTS AND DEBT SERVICE COVERAGE ACCORDING TO THE 1978 TRUST AGREEMENT

For Fiscal year Ended June 30, 2004

(In Thousands)

## S-3A Operating Results and Debt Service Coverage According to the 1978 Trust Agreemei

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenues:** | | | | | | | | | | |
| Airport Properties - Logan | | | | | | | | | | |
| Landing Fees | $44,981 | $45,349 | $49,053 | $50,809 | $51,990 | $52,930 | $56,141 | $49,656 | $68,969 | $75,050 |
| Parking Fees | 50,746 | 55,892 | 54,326 | 58,214 | 63,931 | 71,108 | 73,269 | 64,007 | 75,381 | 88,169 |
| Utility Fees | 11,339 | 11,503 | 11,695 | 12,495 | 11,874 | 12,488 | 14,170 | 13,731 | 13,577 | 12,407 |
| Terminal Rentals | 33,819 | 34,604 | 34,763 | 39,164 | 37,689 | 40,328 | 40,879 | 41,771 | 47,109 | 66,196 |
| Non-Terminal Building and Ground Rents | 20,238 | 20,826 | 21,332 | 21,095 | 22,444 | 26,264 | 29,949 | 29,851 | 30,269 | 31,905 |
| Concessions | 28,802 | 32,879 | 35,948 | 41,051 | 44,462 | 44,190 | 44,370 | 41,371 | 45,949 | 43,870 |
| Other | 6,991 | 9,147 | 9,329 | 11,155 | 10,062 | 10,863 | 11,236 | 15,275 | 14,912 | 17,550 |
| | 196,916 | 210,200 | 216,446 | 233,983 | 242,452 | 258,171 | 270,014 | 255,662 | 296,166 | 335,147 |
| Airport Properties - Hanscom | 2,136 | 2,358 | 2,445 | 2,850 | 2,943 | 3,579 | 4,073 | 4,949 | 4,093 | 5,909 |
| Total Airport Properties | 199,052 | 212,558 | 218,891 | 236,833 | 245,395 | 261,750 | 274,087 | 260,611 | 300,259 | 341,056 |
| Port Properties | | | | | | | | | | |
| Maritime | 25,586 | 23,033 | 20,574 | 22,354 | 30,098 | 34,689 | 32,155 | 31,562 | 35,056 | 38,841 |
| Business Development | 5,918 | 5,958 | 5,407 | 5,476 | 7,107 | 7,279 | 7,454 | 7,019 | 8,055 | 10,994 |
| | 31,504 | 28,991 | 25,981 | 27,830 | 37,205 | 41,968 | 39,609 | 38,581 | 43,111 | 49,835 |
| Bridge | 5,896 | 6,118 | 6,372 | 12,486 | 11,647 | 12,209 | 13,190 | 17,436 | 22,346 | 24,073 |
| Total Operating Revenue | 236,452 | 247,667 | 251,244 | 277,149 | 294,247 | 315,927 | 326,886 | 316,628 | 365,716 | 414,964 |
| Investment Income (1) | 11,965 | 11,648 | 10,212 | 13,738 | 16,535 | 17,748 | 21,604 | 12,959 | 7,962 | 6,568 |
| Total Revenues | 248,417 | 259,315 | 261,456 | 290,887 | 310,782 | 333,675 | 348,490 | 329,587 | 373,678 | 421,532 |
| **Operating Expenses (2):** | | | | | | | | | | |
| Airport Properties | | | | | | | | | | |
| Logan | 108,606 | 120,469 | 121,556 | 124,572 | 136,400 | 139,896 | 153,010 | 150,610 | 163,782 | 180,019 |
| Hanscom | 3,263 | 3,213 | 3,201 | 3,116 | 3,133 | 3,394 | 4,040 | 3,910 | 4,642 | 5,215 |
| | 111,869 | 123,682 | 124,757 | 127,688 | 139,533 | 143,290 | 157,050 | 154,520 | 168,424 | 185,234 |
| Port Properties | | | | | | | | | | |
| Maritime | 29,305 | 28,355 | 26,312 | 29,169 | 34,626 | 34,719 | 33,420 | 34,054 | 40,064 | 44,241 |
| Business Development | 4,780 | 6,533 | 6,285 | 6,076 | 6,642 | 6,414 | 6,822 | 7,040 | 6,621 | 4,763 |
| | 34,085 | 34,888 | 32,597 | 35,245 | 41,268 | 41,133 | 40,242 | 41,094 | 46,685 | 49,004 |
| Bridge | 6,705 | 7,249 | 6,982 | 6,740 | 7,215 | 7,303 | 7,652 | 7,852 | 8,710 | 9,616 |
| Total Operating Expenses | 152,659 | 165,819 | 164,336 | 169,673 | 188,016 | 191,726 | 204,944 | 203,466 | 223,819 | 243,854 |
| Net Revenues | $95,758 | $93,496 | $97,120 | $121,214 | $122,766 | $141,949 | $143,546 | $126,121 | $149,859 | 177,678 |
| Annual Debt Service | $48,024 | $47,054 | $47,061 | $46,560 | $56,956 | $57,444 | $64,965 | $69,711 | $74,089 | $80,696 |
| Annual Debt Service Coverage | 1.99 | 1.99 | 2.06 | 2.60 | 2.16 | 2.47 | 2.21 | 1.81 | 2.02 | 2.20 |

(1) Excludes investment income deposited into Construction and PFC Funds.
(2) Includes allocation for all operating expenses related to Authority General Administration.

## Insurance Renewals In Place At Fiscal Year Ended June 30, 2004

### S-4 Annual Insurance Renewals

| TYPE OF COVERAGE | BROKER / UNDERWRITER | PREMIUM |
|---|---|---|
| **PROPERTY INSURANCE** | | |
| All Risk Property Insurance including Boiler and Machinery and Contractor's Equipment and Tobin Bridge U & O | Hobbs Group, LLC / Lexington Insurance Company, Royal Indemnity Company Lloyd's of London | $2,852,769 (1) |
| Property Terrorism Coverage | | $796,390 |
| Hull Insurance - Fireboat, State Police Patrol Boat Including Terrorism Coverage | Customhouse Marine / Continental Insurance Company | $9,884 |
| **LIABILITY INSURANCE** | | |
| Aviation General Liabilty Primary and Excess | Sheppard Riley Coughlin / ACE Property and Casualty | $2,224,471 |
| Airport Terrorism Coverage | | $871,929 |
| Comprehensive Marine Liability Terminal Operator's Liability Primary and Excess | Sheppard Riley Coughlin / American Home Assurance Company Lexington Insurance Company | $216,375 (2) |
| Marine Terrorism Coverage | | $19,550 |
| Bridge General Liability Primary, Including Terrorism | Sheppard Riley Coughlin / American Home Assurance Company Lexington Insurance Company | $288,500 (3) |
| Stevedore's Legal Liability Primary and Excess | Sheppard Riley Coughlin / American Home Assurance Company | $175,000 (4) |
| Stevedore's Terrorism Coverage | | $20,000 |
| Automobile Liability Including Bus Liabilty | Sheppard Riley Coughlin Hanover Insurance Company | $612,825 (5) |
| **OTHER COVERAGES** | | |
| Crime, Dishonesty Burglary and Robbery | Marsh USA, Inc. Travelers Casualty & Surety | $22,499 |
| Secretary-Treasurer's Bond | Marsh USA, Inc. Hartford Insurance Company | $3,025 |
| Customs Bond | Marsh USA, Inc. American Casualty Company | $825 |

(1) Premium is adjustable based upon replacement cost of construction projects completed during the policy term at $.103 per $100 of new construction.
(2) Premium is adjustable based upon a rate of $.225 per $100 of gross receipts.
(3) Premium is adjustable based upon a rate of $13.28 per 1,000 vehicles exceeding 24 million.
(4) Premium is adjustable based upon a rate4 of $2.05 per $100 of payroll.
(5) Premium is adjustable based upon a rate of $1,423 per registered vehicles.

# Massachusetts Port Authority
## Statistical Section

## Logan International Airport
## Traffic Statistics
### Fiscal Year Ended June 30, 2004

### S-5 Logan International Airport Statistics - In-Bound and Out-Bound Traffic

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Aircraft Operations (1)** | | | | | | | | | | |
| Domestic (2) | 223,288 | 216,018 | 218,630 | 227,781 | 237,276 | 247,979 | 247,298 | 197,844 | 190,609 | 184,836 |
| International (3) | 39,715 | 39,146 | 38,053 | 43,273 | 47,423 | 43,414 | 48,699 | 39,883 | 39,234 | 39,799 |
| Regional | 169,727 | 181,309 | 179,832 | 195,178 | 185,963 | 162,062 | 167,820 | 145,749 | 123,702 | 132,496 |
| General Aviation | 24,070 | 25,085 | 28,197 | 30,142 | 33,918 | 40,371 | 31,687 | 25,524 | 27,880 | 28,890 |
| **Total Operations** | 456,800 | 461,558 | 464,712 | 496,374 | 504,580 | 493,826 | 495,504 | 409,000 | 381,425 | 386,021 |
| **Enplaned Plus Deplaned Passengers** | | | | | | | | | | |
| Domestic (2) | | | | | | | | | | |
| Enplaned | 9,339,562 | 9,567,226 | 9,642,929 | 9,934,156 | 10,025,973 | 10,510,792 | 10,135,550 | 8,052,257 | 8,284,960 | 8,919,352 |
| Deplaned | 9,400,897 | 9,620,396 | 9,715,636 | 9,964,942 | 10,107,352 | 10,514,006 | 10,194,716 | 8,088,769 | 8,304,108 | 8,952,770 |
| International (3) | | | | | | | | | | |
| Enplaned | 1,783,986 | 1,712,139 | 1,753,328 | 1,896,499 | 2,089,101 | 2,202,592 | 2,377,178 | 1,904,246 | 1,906,562 | 2,040,079 |
| Deplaned | 1,801,790 | 1,739,503 | 1,772,306 | 1,882,741 | 2,065,148 | 2,170,689 | 2,335,959 | 1,889,185 | 1,919,516 | 2,047,766 |
| Regional | | | | | | | | | | |
| Enplaned | 956,853 | 1,084,601 | 1,017,862 | 1,183,254 | 1,134,641 | 1,086,632 | 1,145,938 | 1,069,742 | 1,058,709 | 1,276,296 |
| Deplaned | 948,943 | 1,054,636 | 1,016,331 | 1,159,076 | 1,112,732 | 1,058,307 | 1,140,587 | 1,047,558 | 1,042,212 | 1,240,351 |
| **Subtotal** | 24,232,031 | 24,778,501 | 24,918,392 | 26,020,668 | 26,534,947 | 27,543,018 | 27,329,928 | 22,051,757 | 22,516,067 | 24,476,614 |
| General Aviation | | | | | | | | | | |
| Enplaned | 40,795 | 43,746 | 49,980 | 53,681 | 62,030 | 64,269 | 57,985 | 46,302 | 47,072 | 43,234 |
| Deplaned | 40,708 | 44,835 | 51,268 | 54,797 | 58,842 | 53,878 | 55,369 | 45,051 | 45,471 | 42,920 |
| **Total Passengers** | 24,313,534 | 24,867,082 | 25,019,640 | 26,129,146 | 26,655,819 | 27,661,165 | 27,443,282 | 22,143,110 | 22,608,610 | 24,562,768 |
| **Average Passengers Per Flight** | | | | | | | | | | |
| Domestic (2) | 83.9 | 88.8 | 88.5 | 87.4 | 85.0 | 84.8 | 82.2 | 81.6 | 88.2 | 96.7 |
| International (3) | 90.3 | 88.2 | 92.7 | 87.3 | 87.0 | 100.7 | 96.8 | 95.1 | 97.5 | 102.7 |
| Regional | 11.2 | 11.8 | 11.3 | 12.0 | 12.1 | 13.2 | 13.6 | 14.5 | 17.9 | 19.0 |

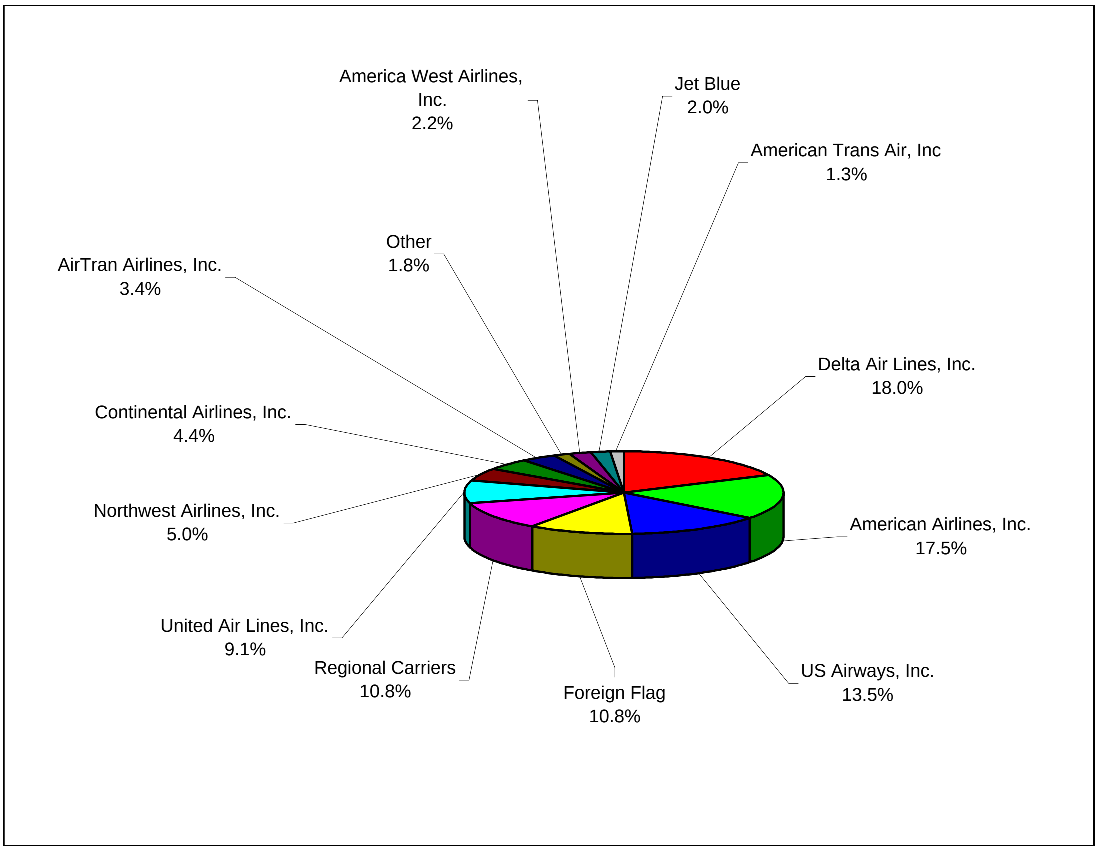
(1) Includes all-cargo flights, but excludes helicopters
(2) Includes jet and charter
(3) Includes jet, charter and international commuter

# Massachusetts Port Authority

## Statistical Section

## Logan International Airport
## Market Share of Total Passenger Traffic
## Fiscal Year Ended June 30, 2004

### S-6 Logan International Airport - Fiscal Year 2004 Market Share of Total Passenger Traffic




*Percentages do not add to 100% due to rounding.

# Massachusetts Port Authority

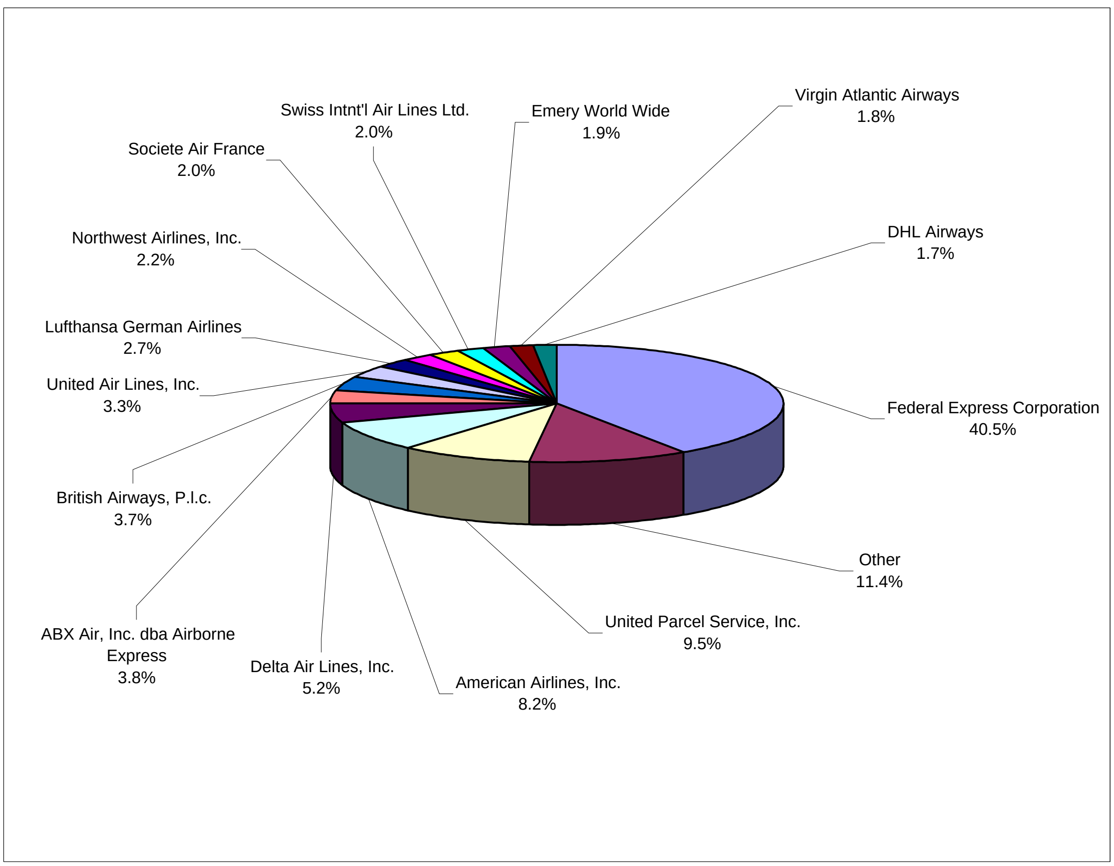
## Statistical Section

……………………………………………………………………………………

## Logan International Airport
## Percentage of International and Domestic Mail,
## Express Packages and Cargo
## Fiscal Year Ended June 30, 2004

……………………………………………………………………………………

**S-7 Logan International Airport - Fiscal Year 2004 Percentage of International and Domestic Mail, Express Packages and Cargo**



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**LOGAN INTERNATIONAL AIRPORT**
**PASSENGER MARKETS**

………………………………………………………………………

**S-8 Logan International Airport – Passenger Markets**

The following table shows the percentage of passengers traveling on U.S. air carrier airlines to or from the Airport and other final domestic destinations for calendar year 2003, as reported by the United States Department of Transportation ("DOT"). International passengers are not included. It also shows the comparative ranking of the top 20 domestic destinations for the same period and for the preceding calendar year.

| Calendar 2002 Rank | Calendar 2003 Rank | Market | Calendar 2003 Percentage |
|---|---|---|---|
| 1 | 1 | New York, New York / Newark, New Jersey | 10.4% |
| 3 | 2 | *Florida South | 5.6 |
| 2 | 3 | Washington D.C. | 5.3 |
| 7 | 4 | San Francisco, California | 4.8 |
| 4 | 5 | Chicago, Illinois | 4.6 |
| 5 | 6 | Atlanta, Georgia | 4.5 |
| 8 | 7 | Los Angeles, California | 4.2 |
| 6 | 8 | Orlando, Florida | 4.1 |
| 11 | 9 | Philadelphia, Pennsylvania | 3.8 |
| 9 | 10 | Baltimore, Maryland | 3.2 |
| 10 | 11 | Dallas, Texas | 2.4 |
| 14 | 12 | Las Vegas, Nevada | 2.4 |
| 13 | 13 | Tampa, Florida | 2.1 |
| 12 | 14 | Denver, Colorado | 2.1 |
| ** | 15 | West Palm Beach, Florida | 2.0 |
| 15 | 16 | Fort Myers, Florida | 2.0 |
| 16 | 17 | Minneapolis - St. Paul, Minnesota | 1.6 |
| 19 | 18 | San Juan, Puerto Rico | 1.5 |
| 18 | 19 | Houston, Texas | 1.5 |
| 20 | 20 | Phoenix, Arizona | 1.4 |
| | | Total for Cities Listed | 69.5% |

Source: 2004 Back Aviation Solutions

* Florida South consists of Miami and Fort Lauderdale
** Not listed in top twenty for calendar year 2002

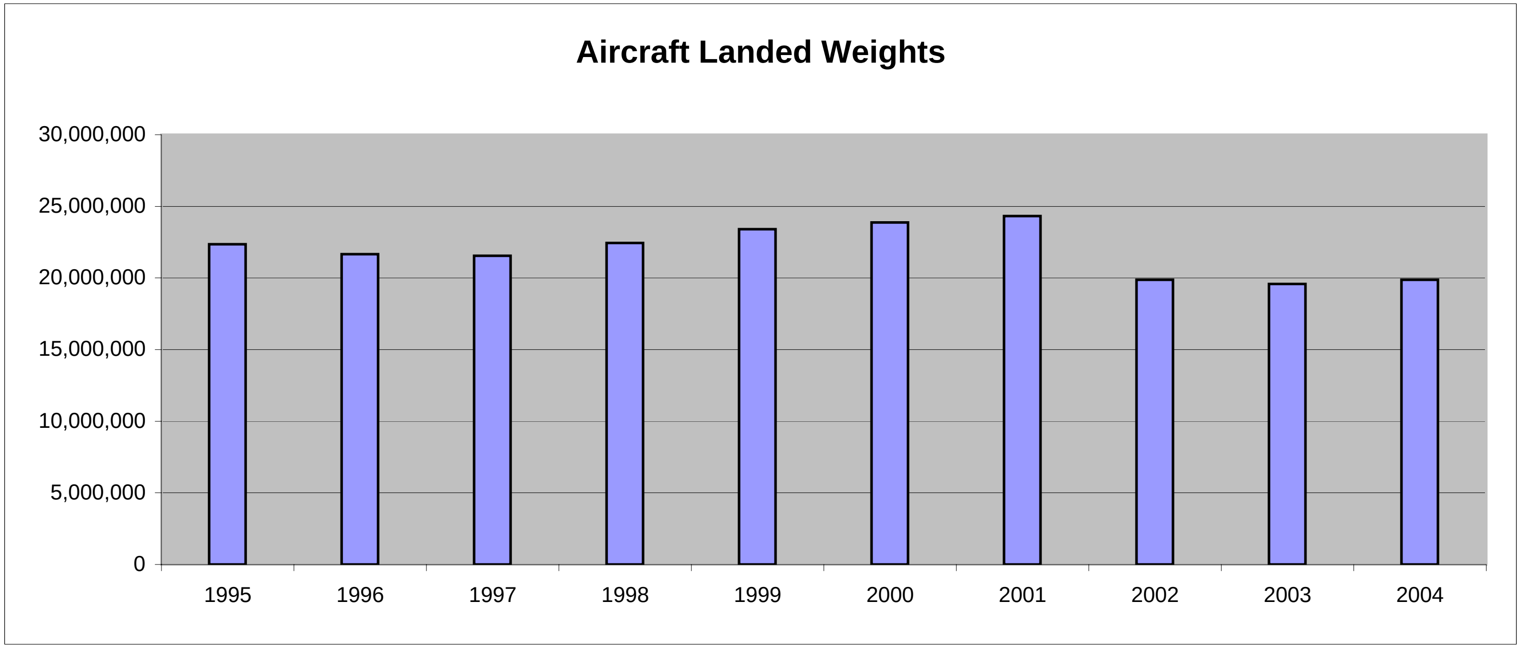
# Massachusetts Port Authority

## Statistical Section

**LOGAN INTERNATIONAL AIRPORT**
**AIRCRAFT LANDED WEIGHTS**
**FISCAL YEAR ENDED JUNE 30, 2004 (IN Thousands)**

### S-9 Logan International Airport Statistics - Aircraft Landed Weights (1,000 Lbs. Certificated Aircraft Weight)

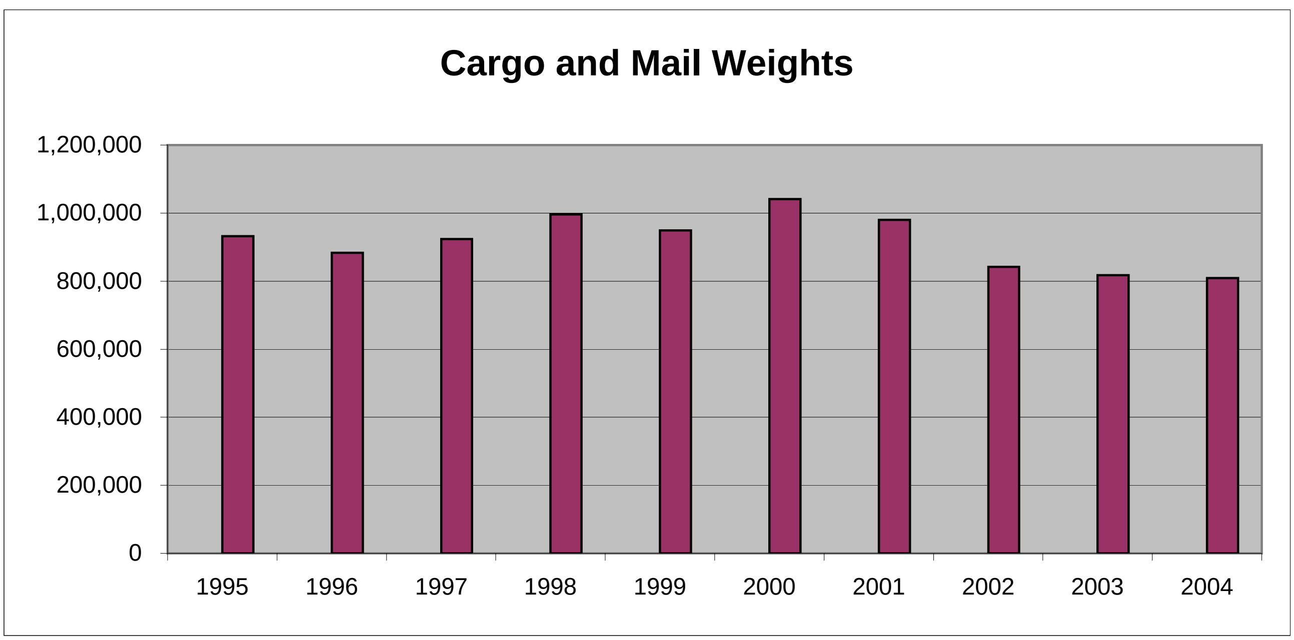
| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|---|---|---|---|
| Aircraft Landed Weights | 22,358,000 | 21,672,000 | 21,554,000 | 22,447,000 | 23,412,000 | 23,878,000 | 24,324,000 | 19,872,000 | 19,576,000 | 19,864,000 |



**LOGAN INTERNATIONAL AIRPORT**
**CARGO AND MAIL WEIGHTS**
**FISCAL YEAR ENDED JUNE 30 (IN THOUSANDS)**

### S-10 Logan International Airport Statistics - Cargo and Mail Weights

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Total Cargo & Mail** | 931,936 | 883,001 | 923,941 | 996,371 | 949,338 | 1,040,877 | 980,385 | 842,249 | 817,843 | 809,179 |



## LOGAN INTERNATIONAL AIRPORT
## PASSENGER FACILITY CHARGE PROJECT ACTIVITY

**Fiscal Year Ended June 30, 2004 (In Thousands)**

### S-11 Passenger Facility Charge Project Activity

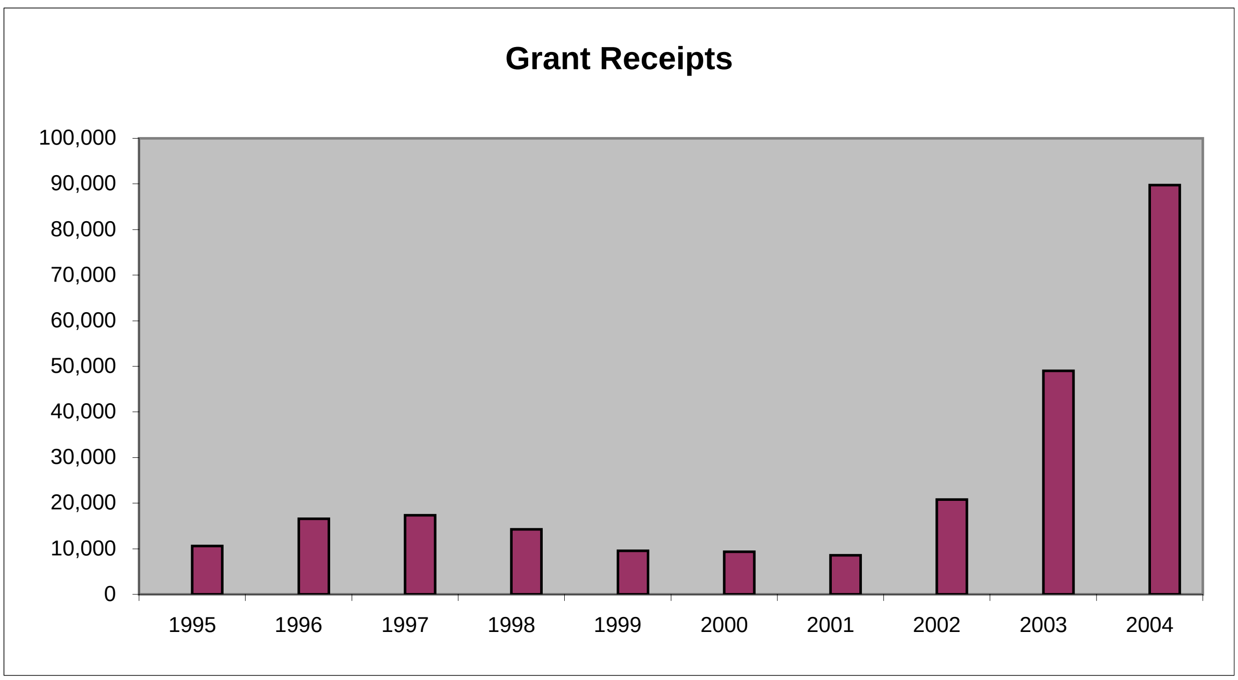
| PROJECTS | Charge Effective Date | Approval of Use Date | Cumulative Expenditures to Date | Approval of Use Amount |
|---|---|---|---|---|
| Project: Residential Sound Insulation (RSIP) | 01-Nov-93 | 27-Jan-97 | $15,325 | $26,990 |
| Project: Logan Modernization Program (LMP) Planning, Preliminary Design and Environmental Analysis | 01-Nov-93 | 24-Aug-93 | 9,514 | 10,346 |
| Project: Terminal E Modernization | 01-Nov-93 | 27-Jan-97 | 20,892 | 24,568 |
| Project: Roadway System (Circulation) | 01-Nov-93 | 27-Jan-97 | 122,051 | 268,306 |
| Project: International Gateway | 01-Nov-93 | 05-Feb-98 | 75,349 | 434,106 |
| Project: Elevated Walkways | 01-Jan-01 | 27-Jan-97 | 110,642 | 163,037 |
| | | | $353,773 | $927,353 |

# Massachusetts Port Authority
## Statistical Section

### GRANT RECEIPTS FROM FEDERAL AGENCIES
**Fiscal Year Ended June 30, 2004 (In Thousands)**

### S-12 Grant Receipts From Federal Agencies

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Fiscal Year Receipts** | $10,618 | $16,599 | $17,329 | $14,277 | $9,520 | $9,370 | $8,588 | $20,814 | $49,039 | $89,715 |




Certain expenditures for airport capital improvements and residential soundproofing are significantly funded through the Airport Improvement Program (AIP) of the Federal Aviation Administration (FAA). The Transportation Security Administration (TSA) also provides grant funds for security related programs at Logan Airport. In fiscal year 2004, the TSA paid the Authority $58 million, representing two installments under a letter of intent to fund a portion of the cost of the baggage screening program at Logan Airport.

## PORT OF BOSTON
## CARGO AND PASSENGER ACTIVITY
## Fiscal Year Ended June 30, 2004

### S-13 Cargo and Passenger Activity

| Port Activity | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|---|---|---|---|
| Containers (1) | 90,921 | 73,083 | 72,291 | 78,808 | 83,544 | 83,407 | 74,901 | 72,537 | 86,149 | 93,627 |
| Cruise Passengers | 79,520 | 69,075 | 69,905 | 109,708 | 115,625 | 156,769 | 186,070 | 246,539 | 207,254 | 200,836 |
| Automobiles (2) | 21,971 | 36,010 | 62,282 | 72,333 | 74,060 | 87,973 | 89,348 | 80,070 | 29,559 | 12,198 |
| Bulk Tonnage | 243,147 | 355,042 | 205,621 | 248,204 | 217,103 | 168,600 | 158,705 | 207,583 | 162,824 | 144,304 |

(1) Does not include over-the-road volumes.
(2) Includes vehicles entered by over-the-road means through September 1998: does not include vehicles entered by over-the-road means after September 1998.

# Massachusetts Port Authority

## Statistical Section

### PORT OF BOSTON
### PRINCIPAL CUSTOMERS
### Fiscal Year Ended June 30, 2004

**S-14  Principal Customers**

| Direct Service | Shipping Lines | Cruise Lines | Large Customs House Brokers |
|---|---|---|---|
| China Ocean Shipping Co. | China Ocean Shipping | Carnival Cruise Line | AIS International, Inc. |
| CMA - CGM | Evergreen America | Crystal Cruises | C.H. Powell Company |
| Columbia Coastal Transport | Hanjin | Holland America Line | Danzas A & I |
| Hanjin Shipping | Hapag Lloyd | Norwegian Cruise Line | Deringer, A.N.Inc. |
| K-Line | K-Line | P & O Cruises | Dynasty International |
| Mediterranean Shipping Corp. | Lykes Line | Princess Cruises | Emery Worldwide |
| SPM Marine Line | Maersk SeaLand | Royal Caribbean Cruise Line | Expeditors International |
| Yang Ming Line | Mediterranean Shipping Company | Seabourn Cruise Line | Fedex Trade Networks |
| | Orient Overseas Container Line | Silversea Cruises | Kuehne & Nagel, Inc. |
| | Yang Ming Line | Hapag Lloyd | Liberty International |
| | ZIM Container | Costa Cruise Line | UPS Freight Services |
| | Lloyd Triestino | Radisson Cruise Lines | Panalpina, Inc. |
| | Senator | Phoenix Reisin | Albatrans |
| | Lykes Line | Swan Hellenic | Geologistics America |
| | CMA-CGM | | Boston Bay Brokers |
| | P & O | | JF Moran |
| | NYK | | OceanAir |
| | Columbus | | Schenkers |
| | Hatsu | | |

## TOBIN MEMORIAL BRIDGE
## Fiscal Year Ended June 30, 2004

### S-15 Bridge Statistics (In-Bound)

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|---|---|---|---|---|
| Resident: Vehicles with Sticker * | 2,796,181 | 1,386,017 | 165,360 | 348,192 | 388,825 | 395,526 | 388,815 | 391,961 | 512,014 | 585,811 |
| Class 1 Passenger * | 8,903,972 | 10,300,122 | 11,762,019 | 10,468,960 | 9,888,389 | 10,025,617 | 10,898,566 | 10,218,593 | 9,817,665 | 9,427,512 |
| Total Passenger Vehicles | 11,700,153 | 11,686,139 | 11,927,379 | 10,817,152 | 10,277,214 | 10,421,143 | 11,287,381 | 10,610,554 | 10,329,679 | 10,013,323 |
| Class 2 - 6 Commercial ** | 473,785 | 380,809 | 357,179 | 782,599 | 675,747 | 821,852 | 990,900 | 924,235 | 909,273 | 885,858 |
| Total Paying Vehicles | 12,173,938 | 12,066,948 | 12,284,558 | 11,599,751 | 10,952,961 | 11,242,995 | 12,278,281 | 11,534,789 | 11,238,952 | 10,899,181 |
| MBTA (Massachusrtts Bay Transportation Authority) | 62,863 | 55,957 | 49,753 | 56,567 | 62,239 | 67,471 | 68,358 | 54,620 | 30,883 | 23,302 |
| Non-Revenue | 56,655 | 70,243 | 73,531 | 64,478 | 53,239 | 41,425 | 43,264 | 43,878 | 48,183 | 61,827 |
| Total Non-Paying Vehicles | 119,518 | 126,200 | 123,284 | 121,045 | 115,478 | 108,896 | 111,622 | 98,498 | 79,066 | 85,129 |
| **TOTAL VEHICLES** | 12,293,456 | 12,193,148 | 12,407,842 | 11,720,796 | 11,068,439 | 11,351,891 | 12,389,903 | 11,633,287 | 11,318,018 | 10,984,310 |

* Prior to January 1996 all motorists having passenger vehicles could purchase a Bridge sticker and pay a discounted toll. This program was discontinued and only residents of Charlestown and Chelsea , who qualified, were allowed a discounted toll.

** Beginning in Fiscal Year 1995 commercial vehicles hauling hazardous materials were no longer allowed to use the Bridge.

**STATEMENT OF**
**ANNUAL FINANCIAL INFORMATION**
**AND OPERATING DATA**
**of the**
**MASSACHUSETTS PORT AUTHORITY**
**FOR FISCAL YEAR 2004**

## INTRODUCTION

This Statement of Annual Financial Information and Operating Data dated as of November 10, 2004 (the "Annual Disclosure Statement") of the Massachusetts Port Authority (the "Authority") is prepared and submitted in accordance with the requirements of the Continuing Disclosure Agreement, dated as of August 1, 1997 (the "Continuing Disclosure Agreement"), between the Authority and U.S. Bank National Association, as trustee (the "Trustee"), and the Trust Agreement dated as of May 1, 1997 between the Authority and the Trustee relating to the BOSFUEL Bonds (as defined below). Set forth below is certain financial information and operating data relating to the Authority for the fiscal year ended June 30, 2004 ("fiscal year 2004") updating the financial information and operating data presented in the Authority's Statement of Annual Financial Information and Operating Data dated as of October 24, 2003 (the "2003 Annual Disclosure Statement"). Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the Authority's Official Statement dated May 22, 2003 (the "2003 Official Statement"). This Annual Disclosure Statement is part of the Authority's Comprehensive Annual Financial Report dated November 10, 2004 (the "CAFR") for fiscal year 2004 and the remaining sections of the CAFR are incorporated herein by reference. The Authority's audited financial statements for fiscal year 2004 and comparative information for fiscal year 2003, prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), with a report thereon by PricewaterhouseCoopers LLP, independent auditors, are also included as the financial section of the CAFR. The 2003 Official Statement and the 2003 Annual Disclosure Statement are each on file with each Nationally Recognized Municipal Securities Information Repository ("NRMSIR").

This Annual Disclosure Statement applies to the following Series of Bonds issued by the Authority (collectively, the "Bonds"):

Massachusetts Port Authority Revenue Bonds, Series 2003-A (Non-AMT)
Massachusetts Port Authority Revenue Bonds, Series 2003-B (Auction Rate Securities) (AMT)
Massachusetts Port Authority Revenue Refunding Bonds, Series 2003-C (Non-AMT)
Massachusetts Port Authority Revenue Bonds, Series 1999-C (Non-AMT)
Massachusetts Port Authority Revenue Bonds, Series 1999-D (AMT)
Massachusetts Port Authority Revenue Refunding Bonds, Series 1998-A (Non-AMT)
Massachusetts Port Authority Revenue Refunding Bonds, Series 1998-B (AMT)
Massachusetts Port Authority Taxable Revenue Refunding Bonds, Series 1998-C
Massachusetts Port Authority Revenue Bonds, Series 1998-D (Non-AMT)
Massachusetts Port Authority Revenue Bonds, Series 1998-E (AMT)
Massachusetts Port Authority Revenue Bonds, Series 1997-A
Massachusetts Port Authority Revenue Bonds, Series 1997-B
Massachusetts Port Authority Revenue Refunding Bonds, Series 1997-C

Massachusetts Port Authority Special Facilities Revenue Bonds (BOSFUEL Project), Series 1997

The Authority has issued 13 series of bonds pursuant to the Trust Agreement dated as of August 1, 1978, as supplemented and amended (the "1978 Trust Agreement") between the Authority and the Trustee which remain outstanding as of the date hereof. On May 29, 2003, the Authority issued $388,195,000 of its revenue and revenue refunding bonds. The Authority's Revenue Bonds, Series 2003-A (the "2003-A Bonds") and the Authority's Revenue Bonds, Series 2003-B (the "2003-B Bonds") were issued, in part, to finance a portion of the Authority's capital program. The 2003-B Bonds were also issued, in part, to currently refund all of the Authority's Revenue Bonds, Series 1992-A and the Authority's Revenue Refunding Bonds, Series 2003-C (the "2003-C Bonds") were issued to currently refund all of the Authority's Revenue Bonds, Series 1992-B and all of the Authority's Revenue Refunding Bonds, Series 1993-A and B. On December 29, 2000 and January 2, 2001, respectively, the Authority issued its Subordinated Revenue Bonds, Series 2000-A, 2000-B and 2000-C, and Series 2001-A, 2001-B and 2001-C, respectively, in the aggregate principal amount of $74,000,000 (collectively, the "Subordinated Revenue Bonds"). The Subordinated Revenue Bonds are payable solely from amounts on deposit in the Improvement and Extension Fund established under the 1978 Trust Agreement and in a separate account not subject to the pledge of the 1978 Trust Agreement. The Subordinated Revenue Bonds are subordinate to all of the revenue bonds issued prior to the date hereof by the Authority pursuant to the 1978 Trust Agreement.

On June 16, 1999, the Authority issued its $67,665,000 PFC Revenue Bonds, Series 1999-A (Non-AMT) and $181,690,000 PFC Revenue Bonds, Series 1999-B (AMT) (collectively, the "PFC Bonds") pursuant to a PFC Revenue Bond Trust Agreement dated as of May 6, 1999, as supplemented and amended (the "PFC Trust Agreement"), between the Authority and The Bank of New York, as trustee (the "PFC Trustee"). Pursuant to the Continuing Disclosure agreement dated as of May 6, 1999 (the "PFC Disclosure Agreement") between the Authority and The Bank of New York, the Authority is also issuing as of the date of the CAFR its Statement of Annual Financial Information and Operating Data for fiscal year 2004 (the "2004 PFC Disclosure Statement") with respect to the PFC Bonds. The 2004 PFC Disclosure Statement has been filed with each NRMSIR and is also available from the Authority and the PFC Trustee.

On August 16, 2001, the Authority issued its Special Facilities Revenue Bonds (Delta Air Lines, Inc. Project), Series 2001A, 2001B and 2001C (collectively, the "Delta Project Bonds") in aggregate principal amount of $497,585,000. On March 1, 2001, the Authority issued its Special Facilities Revenue Refunding Bonds (Harborside Hyatt Conference Center and Hotel Project), Series 2001-A (Tax-Exempt) and 2001-B (Taxable) (collectively, the "Hyatt Bonds"), a portion of the proceeds of which were applied to refund all of the Authority's outstanding Special Facilities Revenue Bonds (Harborside Hyatt Conference Center and Hotel Project), Series 1990. On December 9, 1999, the Authority issued $80,500,000 of its Special Facilities Revenue Bonds (United Air Lines, Inc. Project), Series 1999A (the "United Project Bonds"). As a result of United Air Lines' filing for bankruptcy protection in December 2002, the trustee for the United Project Bonds has issued notice of an event of default. On October 21, 1999, the Authority issued its $33,120,000 Special Facilities Revenue Bonds (US Airways Project), Series 1999 (the "1999 US Airways Project Bonds") and on January 2, 1997, the Authority issued its $48,980,000 Special Facilities Revenue Bonds (USAir Project), Series 1996A (the "1997 USAir Project Bonds" and collectively with the 1999 US Airways Project Bonds, the "US Airways Project Bonds").

The Authority did not undertake any ongoing disclosure obligations in connection with the issuance of the Subordinated Revenue Bonds, the Delta Project Bonds, the Hyatt Bonds, the United Project Bonds or the US Airways Project Bonds. On May 15, 1997, the Authority issued its $111,320,000 Special Facilities Revenue Bonds (BOSFUEL Project), Series 1997 (the "BOSFUEL Bonds").

Copies of the 2003 Official Statement and the Authority's Official Statement dated May 9, 1997 relating to the BOSFUEL Bonds (together, the "Official Statements") are available from the Authority and the Municipal Securities Rulemaking Board ("MSRB"). For a more complete description of the Authority and the Bonds, reference is made to the Official Statements.

The Authority's principal office is located at One Harborside Drive, Suite 200S, East Boston, Massachusetts 02128. Its telephone number is (617) 428-2800. Questions may be directed to Leslie A. Kirwan, the Authority's Director of Administration and Finance and Secretary-Treasurer.

**Annual Disclosure Statement**

This Annual Disclosure Statement is of limited scope. It contains only an updating of certain financial information and operating data described below. ***Except as expressly noted, all information presented in this Annual Disclosure Statement is on the basis required under the 1978 Trust Agreement, and not on the basis of GAAP.*** For a comparison of the Authority's financial results under the 1978 Trust Agreement and GAAP, please refer to Tables S-3 and S-3A (Historical Operating Results and Debt Service Coverage Reconciliation between GAAP and the 1978 Trust Agreement) set forth in the statistical section of the CAFR. The information set forth herein does not contain all material information concerning the Bonds or the Authority necessary to make an informed investment decision. This Annual Disclosure Statement does not constitute an offer to sell or the solicitation of an offer to buy the Bonds.

This Annual Disclosure Statement is submitted pursuant to the Continuing Disclosure Agreement and the obligations of the Authority entered into in 1997 in connection with the BOSFUEL Bonds. The intent of the Authority's undertaking under the Continuing Disclosure Agreement is to provide on a continuing basis for the benefit of the owners of the Bonds and any other bonds of the Authority which are designated by resolution of the Authority as subject to and having the benefits of the Continuing Disclosure Agreement the information described in Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934. Pursuant to the Continuing Disclosure Agreement, the Authority has agreed with respect to the Bonds to provide, or cause to be provided, certain annual financial information and operating data, prepared on the basis of the 1978 Trust Agreement, and notices of material events. In addition, in connection with the issuance of the BOSFUEL Bonds, the Authority undertook a limited obligation to provide annual updated data with respect to certain information regarding the Airport. The Authority reserves the right to modify the disclosure required under the Continuing Disclosure Agreement, or the format of such disclosure, so long as any such modification is permitted by the Rule.

The purpose of the Authority's undertaking is to conform to the requirements of the Rule and not to create new contractual or other rights for the Trustee or for the underwriters of the Bonds, any registered owner or beneficial owner of Bonds, any municipal securities broker or dealer, any potential purchaser of the Bonds, the SEC, or any other person. The sole remedy in the event of any actual or alleged failure by the Authority to comply with any provision of the Continuing Disclosure Agreement shall be an action for the specific performance of the Authority's obligations thereunder and not for money damages in any amount. Any failure by the Authority to comply with any provision of such undertaking shall not constitute an event of default under the 1978 Trust Agreement or any other instrument relating to the Bonds.

## UPDATED OPERATING INFORMATION

### Airport Properties

Boston-Logan International Airport (the "Airport") continues to be the principal source of the Authority's Revenues, Net Revenues and net income, and is the dominant factor in the determination of the Authority's financial condition. In fiscal year 2004, the Airport accounted for 79.5% of the Authority's Revenues and 87.3% of the Authority's Net Revenues, as defined in the 1978 Trust Agreement. For additional information regarding activities at the Airport Properties during fiscal year 2004, please refer to pages 2-4 to the Letter of Transmittal to the CAFR and to statistical information presented in Tables S-5, S-6, S-7, S-8, S-9 and S-10. Tables S-5, S-9 and S-10 in the statistical section of the CAFR summarize Airport traffic statistics for the ten most recent fiscal years.

Logan Airport plays a leading role in New England's air service infrastructure. The Airport provides a wide range of service to short, medium, and long range domestic destinations as well as to international destinations. Over the past several years, regional airports in New England, most notably T.F. Green Airport in Providence, Rhode Island, ("T.F. Green") and Manchester Airport in Manchester, New Hampshire ("Manchester"), have increasingly provided service to predominately short- and mid-range domestic destinations to a significant degree through low-cost carriers. The Authority has worked with these airports to provide enhanced service to New England air travelers.

In calendar year 2003, based upon total passenger volume, Logan Airport was the most active in New England, the 18th most active in the United States and the 35th most active in the world, according to the Airports Council International ("ACI"). Enplaned plus deplaned passengers at the Airport for fiscal year 2004 totaled approximately 24.5 million passengers, excluding general aviation. This is a 8.7% increase from the 22.5 million passengers that used the Airport in fiscal year 2003.

The primary destinations of passengers using the Airport for calendar year 2003 were all Florida destinations (17.5%), the New York/New Jersey area (10.4%) and Washington, DC/Baltimore (8.4%). 11.4% of domestic passengers traveled to the West Coast cities of San Francisco, Los Angeles, Seattle and San Diego. During that same period, international traffic at the Airport accounted for approximately 16.6% of overall traffic.

In fiscal year 2004, international passengers (including those traveling on foreign flag and regional carriers) accounted for 16.6% of passenger traffic, or approximately 4.1 million passengers. The shares of international passengers at the Airport were 10.4% for Europe and the Middle East, 2.4% for Canada, and 3.6% for Bermuda and the Caribbean. In fiscal year 2004, the top five international origin-destination markets were London, Toronto, Paris, Frankfurt and Dublin. International passenger traffic grew as a percentage of overall traffic from fiscal year 2000 through fiscal year 2001, but fell nominally as a percentage of overall traffic in 2002 and grew slightly (by 0.9%) from fiscal year 2002 to fiscal year 2003. Actual international passenger traffic grew by 6.8% from fiscal year 2003 to fiscal year 2004.

In fiscal year 2004, regional airlines accounted for approximately 10.3% of total passenger traffic at the Airport, or approximately 2.5 million passengers. The number of regional passengers grew from fiscal year 2000 to fiscal year 2001 by 6.6%, declined by 8.1% from fiscal year 2001 to 2003, and grew from fiscal year 2003 to fiscal year 2004 by 19.8%. As of June 30, 2004, American Eagle, owned by AMR Corp., parent of American Airlines, accounted for the greatest share of all domestic regional traffic at the Airport, with 42.0% of domestic regional passengers, followed by the

US Airways Express group of regional carriers, which carried 19.9% of domestic regional passengers.

Low-cost carriers are playing a larger role at Logan Airport and throughout New England. As of June 30, 2004, the low-cost carriers providing service at the Airport were AirTran Airlines, America West, ATA, Independence Air, JetBlue Airways, and Song (Delta's low fare subsidiary). They served 18 non-stop destinations and carried 15.4% of the Airport's passengers in fiscal year 2004. Since commencing service at Logan Airport in January 2004, JetBlue has become the sixth largest carrier at the Airport in terms of passenger share over the period from January through June 2004.

In fiscal year 2004, total combined cargo and mail volume was approximately 809.2 million pounds. Between fiscal years 2000 and 2004, the total volume of air cargo and mail handled at the Airport decreased by 22.3%, and the volume in fiscal year 2004 decreased by 1.1% from fiscal year 2003. From fiscal year 2003 to fiscal year 2004, air cargo (small package/express and freight) remained relatively unchanged. A large percentage of the total volume of air cargo for the period was attributable to integrated small package/express carriers, including Federal Express, United Parcel Service, Emery World Wide, ABX Air, Inc., Express One and Kitty Hawk Airlines. Integrated carriers accounted for 58.6% of total domestic and international cargo volume in fiscal year 2004, compared to 63.3% in fiscal year 2003.

## SELECTED FINANCIAL DATA

Table S-3A set forth in the statistical section of the CAFR reflects Revenues and Operating Expenses for the ten most recent fiscal years, prepared in accordance with accounting principles required by the 1978 Trust Agreement. Information for each of the ten fiscal years in the period ending June 30, 2004 is derived from the Authority's financial statements for the respective fiscal years. (Note that in certain cases information from prior fiscal years has been restated to comply with current GASB standards.) Financial statements of the Authority for fiscal year 2004 and comparative data for fiscal year 2003, together with the report thereon of PricewaterhouseCoopers LLP, independent auditors, are included in the CAFR.

Tables S-3 and S-3A of the CAFR show the calculation of Annual Debt Service Coverage of the Authority, as provided under the 1978 Trust Agreement, which equals the ratio of the Net Revenues of the Authority to the Annual Debt Service. "Net Revenues" is defined in the 1978 Trust Agreement as the excess of Revenues over Operating Expenses; provided that for the purpose of the calculations, proceeds of passenger facility charges ("PFCs") have been excluded from Revenues because such proceeds have been excluded from Revenues under the 1978 Trust Agreement. PFCs are pledged to secure the PFC Bonds, pursuant to the PFC Trust Agreement, and certain specific information pertaining to the PFC Bonds, as required by the PFC Disclosure Agreement, is set forth in the separate 2004 PFC Disclosure Statement. As used in the tables, "Annual Debt Service" is equal to the "Principal and Interest Requirements" on Bonds (other than BOSFUEL Bonds) outstanding for the applicable fiscal year.

## MANAGEMENT'S DISCUSSION OF HISTORICAL OPERATING RESULTS

### Prepared in Accordance with the 1978 Trust Agreement

Total Revenues in fiscal year 2004 were $421.5 million, compared to $373.7 and $329.6 million in fiscal years 2003 and 2002, respectively, while Operating Expenses were $243.9 million in fiscal year 2004 compared to $223.8 and $203.5 million in fiscal years 2003 and 2002, respectively,

resulting in Net Revenues of $177.7 million in fiscal year 2004. Logan Airport is the primary source of the Authority's Revenues, Net Revenue and Operating Expenses. For a discussion of the differences between the accounting principles required by the 1978 Trust Agreement and generally accepted accounting principles, see Note B to the Financial Statements. Revenues and Net Revenues do not include PFC revenues, which are required under federal law to be applied to certain capital projects at the Airport and are not pledged for the benefit of holders of the Bonds. PFC revenues, exclusive of interest earnings, collections totaled $29.4 million in fiscal year 2002, $29.1 million in fiscal year 2003 and $32.8 million in fiscal year 2004.

The Authority derives revenues, in part, from activity-based sources, such as parking, rental car commissions, landing fees and international passenger fees at Logan Airport, Bridge tolls, and cargo tariffs and other fees for use of the Port of Boston. Furthermore, following September 11, the FAA instituted numerous security measures for all U.S. airports and seaports, including Logan Airport, Hanscom Field and Worcester Regional Airport, and the Port of Boston, which increased the Authority's Operating Expenses. These measures include, but are not limited to, prohibiting all unticketed persons beyond security checkpoints, enhancing the search and screening of all passengers and baggage, increasing the number of security and law enforcement personnel, and restricting the parking of vehicles near terminals, including the closing of certain parking facilities at Logan Airport for a period of time.

**Airport Properties**

Airport Properties Net Revenues (Airport Properties Revenues less Airport Properties Operating Expenses), increased from fiscal year 2003 to fiscal year 2004 by 18.2%. The number of passengers using Logan Airport in fiscal year 2004 was 8.7% greater than the prior fiscal year. Landed weights were 1.5% greater than the prior fiscal year. Parking exits increased 5.5% over the prior fiscal year, and parking revenues were 17.0% greater than revenues from fiscal year 2003, due in part to rate increases. Logan Airport generated approximately $335.1 million of Revenue and incurred $180.0 million of Operating Expenses in fiscal year 2004, compared to $296.2 million and $255.7 million of Revenues and $163.8 million and $150.6 million of Operating Expenses in fiscal years 2003 and 2002, respectively. Operating revenue and expense figures for Logan Airport stated in this paragraph do not include certain items, particularly expense items, such as interest, depreciation and amortization, properly allocable to Logan Airport under generally accepted accounting principles.

Unlike many airport operators, the Authority is not constrained by contractual arrangements with the air carriers serving the Airport governing the incurrence of aeronautical costs and the recovery of such costs in the landing fee and terminal rentals. Instead, landing fees and terminal rentals are set annually by the Authority on a compensatory basis to cover direct and allocated capital, administration, maintenance and operating costs. Accordingly, each October, the Authority establishes the landing fee for the Airport per thousand pounds of landed weight and the rental rates for the terminals, based upon historic capital costs and projected landed weights, and the budgeted direct and allocable indirect operating costs of providing these facilities for that fiscal year, plus an adjustment for the actual versus the prior year's budgeted revenues and expenses.

**Landing Fees.** Landing fee revenues at the Airport increased from $49.7 million in fiscal year 2002 and $69.0 million in fiscal year 2003 to $75.1 million in fiscal year 2004. Landed weights decreased from 19,872,000 thousand pounds in fiscal year 2002 to 19,576,000 thousand pounds in fiscal year 2003, but increased to 19,864,000 thousand pounds in fiscal year 2004. During this

period, the landing fee rate per thousand pounds of landed weight decreased from a peak of $3.76 in fiscal year 2003 to $3.58 in fiscal year 2004. The Authority's established practice is to include any shortfall (or surplus) in the landing fees collected compared to the actual cost of operating the airfield for the prior year in the landing fee for the next succeeding year. The landing fee for fiscal year 2005, established as of October 1, 2004, is $3.07 per thousand pounds of landed weight.

**Parking Fees.** Airport parking revenues increased from $64.0 million in fiscal year 2002 and $75.4 million in fiscal year 2003 to $88.2 million in fiscal year 2004, reflecting a 5.5% increase in vehicle exits, augmented by rate increases which went into effect in April 2003. The number of commercial parking spaces at the Airport is subject to a limitation imposed by the EPA.

**Rentals.** All leases with air carriers for terminal space at the Airport currently provide that the Authority may revise rental rates periodically, at the discretion of the Authority, to recover the actual direct and indirect capital and operating costs for such leased space. In addition, leases with certain carriers which are obligors of special facilities revenue bonds issued by the Authority and secured by a pledge of certain lease revenues are required to pay rent directly to the applicable trustee in an amount at least sufficient to pay the debt service on such bonds. In August 2001, the Authority entered into a long-term lease with Delta of Terminal A pursuant to which Terminal A has been closed and demolished, and Delta is undertaking the redevelopment of Terminal A. Thus, as of May 2002, the Authority ceased to receive rental payments for Terminal A. According to the current construction schedule, Terminal A is expected to be substantially completed on March 9, 2005. Terminal B had been operated under a net lease with the South Terminal Corporation, an airline consortium whose member shareholders occupied approximately two-thirds of the gates at Terminal B. This lease expired in November 2001, and the Authority now directly controls, operates and maintains all of Terminal B since that date. However, the Authority has entered into a lease of the western wing of Terminal B with US Airways for a term scheduled to end September 30, 2023, and the Authority entered into a similar lease of a significant portion of the eastern wing of Terminal B with American Airlines for a term expiring in 2010, which may be extended to 2015. Rentals from Terminal B were $18.1 million in fiscal year 2004. The Authority does not have long-term written agreements with most of the airline tenants in Terminals C, D and E. Rental rates for such Terminals are set on a compensatory basis to recover direct and allocated capital, administration, maintenance and operation costs. Rental revenue from these three Terminals totaled $48.1 million in fiscal year 2004. Rental income from buildings other than Terminals totaled $24.5 million in fiscal year 2004 and income from land rentals produced an additional $7.4 million.

**Concessions.** Revenues from concessions increased from $41.4 million in fiscal year 2002 to $45.9 million in fiscal year 2003 and decreased to $43.9 million in fiscal year 2004. Concession revenues include payments made by rental car companies which operate at the Airport and commissions from the following concessions: food and beverage, news and gifts, duty free shops, specialty shops, and other concessions.

**Hanscom Field.** During fiscal year 2004, Revenues from operations at Hanscom Field represented approximately 1.4% of the total Revenues of the Authority, and Hanscom's Operating Expenses constituted approximately 2.1% of the Authority's Operating Expenses. In fiscal year 2004, Hanscom Field generated $5.9 million of Revenue, with Operating Expenses of $5.2 million, yielding an operating surplus before debt service or other capital expenses of approximately $694,000. Operating revenue and expense figures for Hanscom Field stated in this paragraph do not include certain items, particularly expense items, such as interest, depreciation and amortization, properly allocable to Hanscom Field under generally accepted accounting principles.

**Worcester Regional Airport.** All payments made under the Worcester OA have been made from cash in the Improvement and Extension Fund.

**Port Properties**

Results of operations of the Authority's Maritime Department and those properties formerly managed by the Business Development Department are separately stated. The Authority has traditionally experienced annual Port Properties operating deficits (Maritime and Business Development Revenues less Maritime and Business Development Operating Expenses). These deficits reflect the allocation of a portion of Authority-wide administrative and overhead costs as well as all direct costs.

In fiscal year 2004 the Revenue attributable to the Port Properties totaled approximately $49.8 million, or approximately 11.8% of the Revenues of the Authority, and the Port Properties accounted for approximately $49.0 million of Operating Expenses, or approximately 20.1% of the Authority's Operating Expenses. The Maritime Department accounted for $38.8 million of these Revenues and for $44.2 million of Operating Expenses, thus incurring an operating deficit in fiscal year 2004 of $5.4 million. The former Business Development Department properties realized $11.0 million of Revenues, versus $4.8 million of Operating Expenses, producing an operating surplus of $6.2 million. Operating revenue and expense figures for the Port Properties stated in this paragraph do not include certain items, particularly expense items such as payments in lieu of taxes, interest and depreciation and amortization, properly allocable to the Port Properties under GAAP.

**Maritime**. The Maritime Department has operated at a deficit in each of the fiscal years from 2000 through 2004. From fiscal year 2000 to fiscal year 2004, the operating deficit has averaged $2.8 million. Operating Expenses for fiscal year 2004 increased primarily due to the additional operating expenses of managing the Fish Pier, increased activity at existing facilities and a change in accounting treatment of rent credits at the Boston Autoport.

Over the period shown, the Authority has pursued a policy of seeking compensatory pricing, aggressively negotiating new lease terms when possible, and revenue development through more intense use of the Port Properties and a marketing program designed to increase the volume of containers handled and the number of cruise passengers who embark or disembark in Boston, in an effort to mitigate these deficits.

**Business Development**. The Business Development Department, which formerly managed the active redevelopment of the Fish Pier, Commonwealth Pier, Constitution Plaza and adjacent properties, and the East Boston Piers, experienced surpluses in each fiscal year from 2000 to 2004, except for fiscal 2002, as a result of significant increases in rental rates obtained both at the expiration and renewal of prior leases, and upon the achievement of higher and more intensive uses. As part of the reorganization of the Authority, responsibility for the properties formerly managed by the Business Development Department, which include both maritime/industrial properties and development properties in former port backlands, was transferred to the Maritime Department. The newly formed Economic Planning and Development Department provides planning and permitting services to the entire Authority.

**Bridge**

In fiscal year 2004, Revenues from the Bridge were approximately $24.1 million, or approximately 5.7% of the total Revenues of the Authority. Bridge Operating Expenses for fiscal year 2004 were $9.6 million, yielding net revenue from Bridge operations of approximately $14.5 million. Effective April 4, 2004 toll rates were increased, with passenger car tolls increasing to $3.00. Operating revenue and expense figures for the Bridge operations stated in this paragraph do not include certain

items, particularly expense items such as payments in lieu of taxes, interest and depreciation and amortization, properly allocable to the Bridge under GAAP.

**Other**

**Investment Income**. Investment income decreased from $13.0 million in fiscal year 2002 and $8.0 million in fiscal year 2003 to $6.6 million in fiscal year 2004, reflecting smaller balances available for investment and lower interest rates.